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# Kewanee Revisited: Returning To First Principles of Intellectual Property Law to Determine the Issue of Federal Preemption

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# KEWANEE REVISITED: RETURNING TO FIRST PRINCIPLES OF INTELLECTUAL PROPERTY LAW TO DETERMINE THE ISSUE OF FEDERAL PREEMPTION

SHARON K. SANDEEN\*

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\* Professor of Law, Hamline University School of Law, St. Paul, Minnesota. Because this Article is the culmination of several articles and several years of research into the history and purpose of trade secret law, I have many people to thank for their assistance, including my first research assistant Kris Huether and later research assistants Amanda Skorr, Caren Stanley, Kristy Evans, Angela Smelund, Tricia Niebuhr, and Daniel Nielsen. I am also thankful for the help and support of the Hamline University School of Law Library and its research fellows program, including the assistance of Barb Kallusky, Elvira Emsber-Herbert, and Yoonjo J. Lee. Thanks also to Ann Bartow, Kristen Osenga and Joshua Sarnoff for their reviews of an early draft of this article. Finally, I am appreciative of the summer research grant I received from Hamline University School of Law to support this project.

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## INTRODUCTION

In 1973, members of the American Bar Association (ABA), Section on Patent, Trademark and Copyright (hereinafter the PTC Section) faced a dilemma. For more than six years, they had written, scrutinized, debated, and re-worked a draft uniform law to govern trade secrets.<sup>1</sup> In August 1972, their efforts finally bore fruit when a draft law was read before the National Conference of Commissioners on Uniform State Laws (hereinafter NCCUSL).<sup>2</sup> At the time, and despite the U.S. Supreme Court's decisions in the *Sears, Roebuck & Co. v. Stiffel Co.* and *Compco Corp. v. Day-Brite Lighting, Inc.* (hereinafter *Sears/Compco*) cases,<sup>3</sup> it was thought that states could regulate in the area of trade secrets without interfering with federal patent policies.<sup>4</sup> With the decision of the Sixth Circuit Court of Appeals in *Kewanee Oil Co. v. Bicron Corp.*,<sup>5</sup> however, this conclusion was called into question, and further consideration of a uniform trade secrets act was suspended pending clarification from the U.S. Supreme Court or an act of Congress.<sup>6</sup>

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1. See *Protection of Confidential Rights and Know-How*, 1967 A.B.A. SEC. PAT., TRADEMARK AND COPYRIGHT L. COMMITTEE REP. §107, at 59 (report of James M. Heilman, Chairman, Comm. 107) and *Trade Secrets, Interference with Contracts and Related Matters*, 1967 A.B.A. SEC. PAT., TRADEMARK AND COPYRIGHT L. COMMITTEE REP. § 402, at 140 (report of Robert E. Isner, Chairman, Comm. 402). In 1966, Committee 107 recommended "in recognition of the increasing state legislation and some court decisions dealing with this subject," that the ABA study the advisability of a uniform state law for the protection of trade secrets. *Protection of Confidential Rights and Know-How*, 1968 A.B.A. SEC. PAT., TRADEMARK AND COPYRIGHT L. COMMITTEE REP. §107, at 68 (report of Leonard B. Mackey, Chairman, Comm. 107).

2. Uniform Trade Secrets Act (1979) [hereinafter UTSA].

3. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232 (1964), *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238 (1964), and notes and accompanying text are available at Section I.A., *infra*.

4. See *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971), *Servo Corp. of Am. v. Gen. Elec. Co.*, 337 F.2d 716 (4th Cir. 1964), *Water Serv., Inc. v. Tesco Chems., Inc.*, 410 F.2d 163 (5th Cir. 1969), *Winston Research Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134 (9th Cir. 1965), *Dekar Indus., Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970).

5. *Kewanee Oil Co. v. Bicron Corp. et al.*, 478 F.2d 1074 (6th Cir. 1973), is referred to herein as *Bicron* to distinguish it from the U.S. Supreme Court case of the same name, which is referred to as *Kewanee*. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 492 (1974).

6. See *Trade Secrets, Interference with Contracts, and Related Matters*, 1971 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP., § 402, at 224 (report of Henry E. Otto, Jr., Chairman, Subcomm. C) ("The future of our efforts and those of the Special Committee to urge adoption of a Uniform Trade Secrets Protection Act, will, of course, be in doubt unless and until the Congress enacts legislation negating any federal intent to preempt control over causes of action for unfair competition."). See also *Trade Secrets, Interference with Contracts, and Related Matters*, 1974 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L.

The PTC Section did not have to wait long for the clarification it needed. In its 1974 decision in *Kewanee*, a divided Supreme Court ruled that Ohio's trade secret law was not preempted by patent law.<sup>7</sup> Rejecting the fact-specific analysis that had been applied by the Sixth Circuit and calls for application of so-called "partial preemption," the Court concluded that trade secret protection did not "constitute too great an encroachment on the federal patent system to be tolerated."<sup>8</sup> Based upon this conclusion, the PTC Section resumed its efforts to enact a uniform law in early 1975, ultimately culminating in NCCUSL's approval of the Uniform Trade Secret Act (hereinafter the UTSA) in August 1979, and the subsequent adoption of the UTSA by forty-five states.<sup>9</sup>

While the decision of the Supreme Court in *Kewanee* is frequently cited for the proposition that state trade secret laws are not preempted by federal law, this broad proposition belies five aspects of the decision. First, *Kewanee* is based upon the Supreme Court's understanding of the trade secret law of the State of Ohio.<sup>10</sup> Although the Ohio common law governing trade secrets was found not to be preempted by federal patent policies, *Kewanee* is not a direct endorsement of the trade secret laws of all states.<sup>11</sup> Second, *Kewanee* was decided before the enactment of the UTSA, and the Court has not subsequently determined whether

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COMMITTEE REP. § 402, 254 (report of James R. Adams, Chairman Subcomm. B) (noting that the activities of Committee 402 concerning the UTSA were on hold pending the outcome of *Kewanee*).

7. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 492 (1974), is referred to herein as *Kewanee* to distinguish it from the Sixth Circuit case of the same name, which is referred to herein as *Bicron*. *Bicron*, 478 F.2d at 1074. The Chief Justice was joined in the opinion by Justices Blackmun, Stewart, Rehnquist, and White. Justice Powell took no part in the decision. Justice Marshall filed an opinion concurring in the result. Justice Douglas wrote a dissent in which Justice Brennan concurred.

8. *Kewanee*, 416 U.S. 470 at 482.

9. UTSA, *supra* note 2. History and information about the National Conference of Commissioners on Uniform State Laws is available at <http://www.nccusl.org/Update/DesktopDefault.aspx?tabindex=0&tabid=11> (last visited Jan. 3, 2008). The only states that have not adopted the UTSA are Massachusetts, New Jersey, New York, North Carolina, and Texas. *See id.*

10. *Kewanee*, 416 U.S. at 474-76.

11. According to briefs that were before the Court, it was represented that the Ohio statutory law governing trade secrets was a codification of the common law "that has long been in effect in Ohio and in other States." Brief for Amicus Curiae Manufacturing Chemists Association at 11, *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974). At the time of *Kewanee*, however, the trade secret laws of the various states were far from uniform. *See Sharon K. Sandeen, Relative Privacy: What Privacy Advocates Can Learn from Trade Secret Law*, 2006 MICH. ST. L. REV. 667, 681-87 (2006).

the UTSA is preempted by federal law. Third, *Kewanee* was decided based upon the Court's understanding of U.S. patent law in 1974 and does not reflect the significant changes in patent law that have occurred since that time. Fourth, due to changes that occurred in U.S. copyright law post-*Kewanee*, the Court did not consider the possibility that trade secret law may interfere with federal copyright policies. Finally, the *Kewanee* decision is based upon the Supreme Court's preemption jurisdiction *circa* 1974 and does not reflect its current views on preemption including, in particular, the reasoning of the Court's decision in the 1989 case of *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*<sup>12</sup>

This Article revisits the issues raised in *Kewanee* in light of the Supreme Court's current preemption jurisprudence, the numerous changes that have been made to patent, copyright, and trade secret law since 1974, and the resulting and significant overlaps that exist between those intellectual property doctrines. To set the stage for what will ultimately be a critique of the Supreme Court's reasoning in *Kewanee*, the Article begins with a review of the history and context of the *Kewanee* decision. In Section II, the Supreme Court and court of appeals cases that set the stage for *Kewanee* are summarized. In Section III, the reasoning of *Kewanee* and the legal and factual assumptions upon which it is based are explained.

Section IV of the Article details the key changes that have been made to patent, copyright, and trade secret law since 1974. Section V then explores whether, in light of those changes, the *Kewanee* Court's preemption analysis has withstood the test of time. Although, like the Court in *Kewanee*, this Article concludes that the UTSA is not preempted by federal law, it reveals the weaknesses in the *Kewanee* Court's reasoning and applies a different preemption analysis. The Article concludes in Section VI by detailing a simplified analysis for what this author calls "IP preemption," to be applied to all state laws that appear to protect content falling within the ambit of patent or copyright law. In so doing, this Article presages the difficulties that state lawmakers will face if they attempt to expand the current scope of trade secret law, e.g., by adopting so-called "data exclusivity" laws.<sup>13</sup>

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12. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989).

13. For example, the 1984 Hatch-Waxman amendments to the Federal Food, Drug, and Cosmetic Act established a five-year data exclusivity period for new drug applications containing new chemical entities that have not been previously approved by the FDA alone or in combination with other chemical entities. See Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (1984) (codified at 21 U.S.C. §

I. THE HISTORICAL AND LEGAL CONTEXT OF *KEWANEE*A. *The Sears/Compco Doctrine*

The *Kewanee* case was not the first time that the U. S. Supreme Court considered whether state law was preempted by U.S. patent law. Just ten years earlier in the *Sears/Compco* cases, the Court ruled that state unfair competition laws could be preempted by federal patent law.<sup>14</sup> Both the *Sears* and *Compco* cases involved claims that the defendants engaged in unfair competition by copying the design of light fixtures sold by the plaintiffs.<sup>15</sup> Due to the perceived novelty of each light fixture, the plaintiffs had obtained patents and brought their claims in federal court alleging patent infringement under federal law and unfair competition under state law.<sup>16</sup> When the patents were held invalid, the only question before the courts was whether the defendants' acts of copying the design of the light fixtures constituted unfair competition under Illinois law. Finding such a violation, the trial court entered judgment for plaintiffs. After the decisions of the district court were affirmed by the Seventh Circuit Court of Appeals,<sup>17</sup> the Supreme Court granted *certiorari* to consider "whether the use of a state unfair competition law to give relief against the copying of an unpatented

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355(j)). During this period the FDA cannot accept drug applications that rely on these data. *Id.*

Although data exclusivity laws arguably have a limited purpose in that they are designed to protect proprietary information that is submitted to the Government, the linkage of the concept of data exclusivity with trade secret law in Article 39 of the Trade Related Aspects of Intellectual Property [hereinafter TRIPS] Agreement of the World Trade Organization has led some to believe that there is (or should be) an independent and enforceable right of data exclusivity, generally, even if the data to be protected is not a trade secret. See Sharon K. Sandeen, *A Contract by Any Other Name Is Still a Contract: Examining the Effectiveness of Trade Secret Clauses to Protect Data Bases*, 45 IDEA 119, 142-44 (2005). This broader view of the scope of trade secret law was, however, rejected by the drafters of the UTSA. *Id.*

14. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238 (1964).

15. In the *Sears* case, the light fixture was a pole lamp described as "a vertical tube having fixtures along the outside, the tube being made so that it will stand upright between the floor and ceiling of the room." *Sears*, 376 U.S. at 225-26. As a child, I recall having such a lamp in our home because I was often caught playing with it. I was fascinated by its telescoping tubing and the twisting mechanism inside that allowed the lamp to be secured between the floor and ceiling. The *Compco* case concerned a fluorescent ceiling fixture with reflective "cross-ribs" that the plaintiff claimed made the fixture stronger and more attractive. *Compco*, 376 U.S. at 234.

16. *Compco*, 376 U.S. at 234; *Sears* 376 U.S. at 226.

17. *Stiffel Co. v. Sears, Roebuck & Co.*, 313 F.2d 115 (7th Cir. 1963) and *Day-Brite Lighting, Inc. v. Compco Corp.*, 311 F.2d 26, 27 (7th Cir. 1962).

industrial design conflicts with the federal patent laws.”<sup>18</sup>

The decision of the Illinois court reflected a prevalent sentiment among state law makers and members of the judiciary concerning the unfairness of copying a competitor’s product.<sup>19</sup> Indeed, as of 1974 when the *Kewanee* case was decided, a rich body of common law had developed that proscribed a litany of acts that constituted unfair competition.<sup>20</sup> Due to the fact that patent law is within the exclusive purview of the U.S. Congress and the federal judiciary and, as a result, is often misunderstood by state court judges and state law makers, there was not much occasion prior to the *Sears/Compco* cases for state courts to reflect upon the potential conflict between federal patent policy and state unfair competition law.

In ruling that the unfair competition laws of Illinois conflicted with U.S. patent law, the Court in *Sears* noted that patent law has its basis in the U.S. Constitution and is “the supreme law of the land.”<sup>21</sup> It further explained that “it is ‘familiar doctrine’ that the federal policy ‘may not be set at naught, or its benefits denied’ by state law.”<sup>22</sup> While acknowledging that the principal purpose of federal patent law is to encourage innovation,<sup>23</sup> the Court was careful to recognize the duality that is built into U.S. patent law. On one hand, U.S. patent law reflects a desire to encourage innovation. On the other hand, it seeks to encourage that innovation without unduly restricting free competition.<sup>24</sup> As the court explained, “the patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition.”<sup>25</sup> The Court emphasized that inventions that do not meet the strict requirements of patent law or that are the subject of an expired patent belong to the public.<sup>26</sup>

Because Illinois law sought to protect an article of commerce that was not protected under U.S. patent law, the Court concluded that there

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18. *Compco*, 376 U.S. at 234.

19. See e.g., RESTATEMENT (FIRST) OF TORTS, §§ 711 and 741 (ALI 1938) and Harry D. Nims, THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS, Chapter X, “Simulation of Articles Themselves,” (Baker, Voorhis & Co. 1947).

20. See RESTATEMENT (FIRST) OF TORTS, Division Nine, “Interference with Business Relations” (ALI 1938) and RESTATEMENT (FIRST) OF UNFAIR COMPETITION (ALI 1994).

21. *Sears*, 376 U.S. at 229.

22. *Id.* at 229, quoting *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173, 176 (1942).

23. *Id.* at 229.

24. *Id.* at 230.

25. *Id.*

26. *Id.*



was “too great an encroachment on the federal patent system.”<sup>27</sup> This is because Illinois law restricted free competition in areas where federal patent law said it could not.

Until the decisions in the *Sears/Compco* cases, state unfair competition law had peacefully co-existed with federal law. Indeed, since the decision of the U.S. Supreme Court in the case of *Erie R.R. v. Tompkins*<sup>28</sup> in 1938, it was understood that only states could develop a common law of unfair competition.<sup>29</sup> The decisions in *Sears/Compco* created doubt about the role of states in preventing unfair competition and led to concern about the continued viability of state trade secret law.<sup>30</sup> This concern explains why the PTC Section decided in 1966 to consider the need for a uniform trade secret law.<sup>31</sup> It was thought that in order to preserve the law of unfair competition it was necessary to either enact a federal law<sup>32</sup> or draft a uniform state law that could not be preempted.<sup>33</sup> The perceived need for a legislative solution to the *Sears/Compco* doctrine<sup>34</sup> became more urgent when its principles were

27. *Id.* at 232.

28. *Erie R.R. Co. v. Tompkins*, 304 U.S. 64, 58 S. Ct. 817 (1938).

29. See, e.g., Louis Kunin, *Erieandompkinitis: The Malady and Its Cure*, 1961 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. SUMMARY OF PROC. 276; Note, *Trade-Marks, Unfair Competition, and the Courts: Some Unsettled Aspects of the Lanham Act*, 66 HARV. L. REV. 1094, 1101 (1953) (noting that until the adoption of the Lanham Act, “federal courts were required by the *Erie* rule to decide unfair competition claims in diversity cases according to state law.”); Note, *Trade Secrets Law After Sears and Compco*, 53 VA. L. REV. 356 (1967).

30. See John R. Peterson, *The Legislative Mandate of Sears and Compco: A Plea for a Federal Law of Unfair Competition*, 56 TRADEMARK REP. 16, 25 (1966); Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378 (1971).

31. See *Protection of Confidential Rights and Know-How*, 1967 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 107, at 59 (report of James M. Heilman, Chairman, Comm. 107) and *Trade Secrets, Interference with Contracts and Related Matters*, 1967 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 140 (report of Robert E. Isner, Chairman, Comm. 402).

32. See, e.g., S. 2756, 91<sup>st</sup> Cong., §301 (1969) (“This title shall not be construed to preempt, or otherwise affect in any way, contractual or other rights or obligations, not in the nature of patent rights, imposed by State or Federal law on particular parties with regard to inventions or discoveries, whether or not subject to this title.”).

33. Louis Kunin, *The Lindsay Bill Before and After the Stiffel Case*, 54 TRADEMARK REP. 731, 736 (1964), citing Rogers, *New Concepts of Unfair Competition Under the Lanham Act*, 38 TRADEMARK REP. 259 (1948) (“Federal unfair competition legislation to counteract the effects of *Erie* was suggested by Mr. Edward S. Rogers speaking before the Practising Law Institute at New York City in 1947.”). See also Herbert David Klein, *The Technical Trade Secret Quadrangle: A Survey*, 55 NW. U. L. REV. 437, 437-44 (1960). Undoubtedly, the efforts of the lawyer-members of the PTC Committee were also influenced by the needs and desires of their business clients. J. ROGER O’MEARA, HOW SMALLER COMPANIES PROTECT THEIR TRADE SECRETS (The Conference Board, Inc. 1971).

34. The *Sears/Compco* doctrine is also referred to as “the *Stiffel* doctrine.”

applied to question not only the continued viability of state trade secret law but also the enforceability of contracts involving the licensing of unpatented technology.<sup>35</sup>

*B. Applying the Sears/Compco Doctrine to Trade Secret Cases*

Viewed broadly, the Supreme Court's decisions in the *Sears/Compco* cases threatened the viability of most state unfair competition claims including claims for trade secret misappropriation.<sup>36</sup> Thus, it was not long after those decisions that defendants in trade secret cases asserted federal preemption as a defense. More often than not, this defense proved unsuccessful.<sup>37</sup> However, in a number of cases, it worked.<sup>38</sup> In other cases, while the courts continued to recognize the viability of trade secret claims, they were careful to explain that it was the limited scope of trade secret law that prevented federal preemption.<sup>39</sup>

Three post-*Sears/Compco* cases, in particular, attracted the attention

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35. See *infra* notes 42-54 and accompanying text.

36. The one exception was state claims for trademark infringement, since the Court in *Sears/Compco* explicitly recognized the continued viability of such claims. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238 (1964).

37. See, e.g., *Servo Corp. of Am., v. Gen. Elec. Co.*, 337 F.2d 716, 724 (4th Cir. 1964); *Data Gen. Corp. v. Digital Comp. Controls, Inc.*, 297 A.2d 437 (Sp. Ct. Del. 1972); *Congoleum Indus., Inc. v. Armstrong Cork Co.*, 366 F. Supp. 220 (E.D. Pa. 1973); *Dekar Indus., Inc. v. Bissett-Berman*, 434 F.2d 1304 (9th Cir. 1970); *Water Servs., Inc. v. Tesco Chems., Inc.*, 410 F.2d 163, 172 (5th Cir. 1969); and *Schulenberg v. Signatrol, Inc.*, 212 N.E.2d 865, 868 (Ill. 1965).

38. See, e.g., *Painton & Co., Ltd. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971) and *Titelock Carpet Strip Co. v. Klasner*, 142 U.S.P.Q. 405 (Cal. Super. Ct. 1964). See also *Winston Research Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134, 138 (9th Cir. 1965) (noting that *Sears/Compco* precludes protection of industrial information separate and apart from the interest states have in protecting the integrity of confidential employer-employee relationships) and *Hampton v. Blair Mfg. Co.*, 374 F.2d 969 (8th Cir. 1967) (applying *Sears/Compco* to limit the duration of an injunction in a trade secret misappropriation case).

39. See, e.g., *Winston Research*, 350 F.2d at 136-37 (noting a difference between claims based on "a legally protectible interest in the secrecy of industrial information as such" (i.e., a property rule) and claims based on "the integrity of confidential employer-employee relationships" (i.e., a tort/breach of confidence rule), the court found that the rationale of *Sears/Compco* precluded recognition of a state claim not based on "breach of faith and reprehensible means of learning another's secret"); *Dekar*, 434 F.2d at 1306 (noting the limited scope of the challenged injunctive order); *Servo Corp.*, 337 F.2d at 724-25 (noting the requirement of a breach of a confidential relationship); *Water Servs., Inc.*, 410 F.2d at 172 (noting that Georgia trade secret law required that the information be secret and that it be revealed in confidence); *Blazon, Inc. v. DeLuxe Game Corp.*, 268 F. Supp. 416, 433 (S.D.N.Y. 1965) (emphasizing the breach of a confidential relationship aspects of trade secret law); and *Van Prods. Co. v. Gen. Welding & Fabricating Co.*, 213 A.2d 769, 773-74 (Pa. 1965) (noting that the gravamen of the complaint is a breach of confidence).

of the proponents of state trade secret laws. The first was the U.S. Supreme Court's 1969 decision in *Lear, Inc. v. Adkins*.<sup>40</sup> Next, in February of 1970, was the district court's decision in *Painton & Co. v. Bourns, Inc.*<sup>41</sup> Finally was the Sixth Circuit's decision in *Bicron*. The holding and reasoning of these cases not only puts *Kewanee* in context but also helps explain the structure and content of its reasoning.

With its decision in *Lear*, the U.S. Supreme Court shocked the technology licensing community by overturning the well-established doctrine of licensee estoppel.<sup>42</sup> Although ostensibly a patent infringement case, *Lear* involved an effort by an inventor, Adkins, to enforce a licensing agreement involving trade secret information (i.e., information that at the time the license was entered into was confidential and not yet the subject of an issued patent).<sup>43</sup> When Lear failed to pay the applicable license fee, and after Adkins had obtained patents on the subject technology, Adkins sued Lear for patent infringement seeking an award of royalties for Lear's past and future use of the licensed technology. At issue was whether Lear's status as a licensee of the technology precluded him from arguing that the patents were invalid.

A little more than five years removed from its decisions in *Sears/Compco*, the Court in *Lear* was quick to identify the conflict between principles of freedom of contract and federal patent policies that was presented by the case:

On the one hand, the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made. On the other hand,

40. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

41. *Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970).

42. See, e.g., Note, *Licenses—Enforceability—Royalty Provisions in Know-How Licensing Agreements Held Unenforceable—Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970), 84 HARV. L. REV. 477 (1970) and *Protecting Trade Secrets*, N.Y. TIMES, Nov. 21, 1971, at F7. Even after nearly forty years, the "shocking" nature of *Lear* is still being expressed as evidenced by several of the amicus briefs filed in the recent case of *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007). For instance, in its amicus brief, the ABA argued that the ruling in *Lear* should be limited to licensees who expressly repudiate a license: "The policy of encouraging invalidity challenges does not require that non-repudiating licensees be allowed to challenge the validity of licensed patents." Brief for American Bar Association as Amicus Curiae Supporting Respondents, *MedImmune, Inc. v. Genentech*, 127 S. Ct. 764 (No. 05-608), 2006 WL 2091230.

43. The agreement at issue provided that Lear would have the option to terminate the license agreement if "the U.S. Patent Office refuses to issue a patent . . . or if such a patent so issued is subsequently held invalid." *Lear*, 395 U.S. at 657.

federal law requires, that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent.<sup>44</sup>

The question for the Court was whether and how these two principles could be reconciled. Noting that the intermediate positions adopted by various courts—i.e., between freedom of contract and federal patent policy—had been a “failure,” the Court reasoned that when faced with a choice the policies underlying *Sears/Compco* should prevail.<sup>45</sup> Of particular concern to the Court was its belief that the doctrine of licensee estoppel interfered with the right of members of the public to freely use information in the public domain, i.e., the information disclosed in the issued patents.<sup>46</sup>

Less than a year after *Lear*, Judge Constance Baker Motley<sup>47</sup> relied upon the free competition aspects of its reasoning to refuse to enforce the trade secret provisions of a manufacturing agreement.<sup>48</sup> She explained:

Pursuant to Paragraph 6 of the 1962 contract, Painton agreed to pay royalties on models for which no patent application had been or would be made. . . . This court’s enforcement of such an agreement would be contrary to our national patent law and policy *Lear v. Adkins, supra*. Our patent policy of strict regulation of inventions would be undercut if inventors could enforce agreements for compensation for alleged secret ideas without being required to submit those ideas to the Patent

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44. *Id.* at 668, citing *Stiffel*, 313 F.2d at 115, and *Day-Brite Lighting, Inc.*, 311 F.2d at 26.

45. This suggests that when dealing with conflicts between patent law and state law the “presumption against preemption,” *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1974), does not apply. See discussion of the presumption against preemption in Section IV.A.2., *infra*.

46. *Lear*, 395 U.S. at 670 (“Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.”).

47. Judge Motley was the first African-American woman to be appointed as a federal court judge. She was appointed to the United States District Court for the Southern District of New York by President Lyndon Johnson in 1966, following a distinguished career as a civil rights lawyer and politician. Among numerous other accomplishments, she wrote the original complaint in the case of *Brown v. Board of Education* and was the first African-American woman to argue a case before the U.S. Supreme Court. Douglas Martin, *Constance Baker Motley, 84, Civil Rights Trailblazer, Lawmaker and Judge, Dies*, N.Y. TIMES, Sept. 29, 2005, at BN.

48. *Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271, 274 (S.D.N.Y. 1970), citing *Lear*, 395 U.S. at 672-74.

Office, and, thereby, eventually have the ideas disclosed to the public.<sup>49</sup>

Even though the subject information was not publicly disclosed, as it had been in *Lear*, Judge Motley refused to enforce a license agreement that had been made before the licensor had applied for a patent.<sup>50</sup>

The decisions of the courts in *Painton* and *Lear* were greeted with swift and critical rebuke.<sup>51</sup> Within a year after the decision in *Painton*, both the *Harvard* and *Texas Law Reviews* published comments questioning the reasoning and outcome of the case.<sup>52</sup> These comments were followed by a law review article by Roger Milgrim entitled *Sears to Lear to Painton: Of Whales and Other Matter*, in which he expressed concern that the district court's decision in *Painton* was a misguided and unnecessary extension of the *Sears/Compco* doctrine.<sup>53</sup> Of particular concern was the impact the *Painton* decision would have on existing business practices, including trade secret licensing.<sup>54</sup>

Clearly cognizant of the foregoing criticism, the Second Circuit

49. *Id.*

50. *Painton*, 309 F. Supp. at 274.

51. See Roger M. Milgrim, *Sears to Lear to Painton: Of Whales and other Matter*, 46 N.Y.U. L. REV. 17 (1971); Note, *Licenses—Enforceability—Royalty Provisions in Know-How Licensing Agreements Held Unenforceable*.—*Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970), 84 HARV. L. REV. 477 (1970); Hank Skelton, Note, *Patents—A Licensing Contract for the Manufacture of Un-Patented Devices for Which No Patent Application Has Been Made is Unenforceable*. *Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970), 48 TEX. L. REV. 1399 (1970); and Arnold & Goldstein, *Life Under Lear*, 48 TEX. L. REV. 1235, 1254 (1970).

52. See generally Note, *Licenses—Enforceability—Royalty Provisions in Know-How Licensing Agreements Held Unenforceable*.—*Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970), 84 HARV. L. REV. 477 (1970); and Hank Skelton, Note, *Patents—A Licensing Contract for the Manufacture of Un-Patented Devices for Which No Patent Application Has Been Made is Unenforceable*. *Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970), 48 TEX. L. REV. 1399 (1970). See also *Trade Secrets, Interference with Contracts, and Related Matters*, 1971 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 215 (report of Neil M. Rose, Chairman, Comm. 402) ("Much of the assigned area of Committee 402 involves the subject of trade secrets which currently falls under the shadow of the *Lear* and *Painton* cases.").

53. See Milgrim, *supra* note 51, at 17.

54. *Id.* at 26-27; Note, *Licenses—Enforceability—Royalty Provisions in Know-How Licensing Agreements Held Unenforceable*.—*Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970), 84 HARV. L. REV. 477, 480-84; Skelton, *supra* note 51, at 1399; and Arnold & Goldstein, *Life Under Lear*, 48 TEX. L. REV. 1235, 1254. For a different perspective in support of preemption, see generally Note, *Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards of Patentability*, 87 HARV. L. REV. 807 (1974).

Court of Appeals reversed the decision of the district court in *Painton*.<sup>55</sup> After first chastising Judge Motley for reaching a decision “without benefit of brief or argument from the parties who had been concerned solely with the issue of contract interpretation,”<sup>56</sup> the court examined the policy issues raised in the lower court’s decision. First, it noted that unlike *Sears/Compco*, the licensing of trade secrets does not concern information that is in the public domain.<sup>57</sup> Relying upon a novel argument raised in a *Harvard Law Review* comment, the court then observed that the licensing of trade secrets actually had the effect of discouraging the hoarding of information by allowing for the wider distribution and use of trade secret information through licensing.<sup>58</sup>

Next, the court explored whether the availability of trade secret protection was likely to discourage the filing of patent applications. In doing so, it introduced a categorical analysis that was later utilized by the U.S. Supreme Court in *Kewanee*. The court reasoned that “[i]n analyzing this argument, it is useful to distinguish three categories—(1) the trade secret believed by its owner to constitute a validly patentable invention; (2) the trade secret known to its owner not to be so patentable; and (3) the trade secret whose valid patentability is considered dubious.”<sup>59</sup>

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55. *Painton & Co., Ltd. v. Bourns, Inc.*, 442 F.2d 216, 221-22 (2d Cir. 1971) (“The portion of the district court’s opinion denying judicial enforcement of agreements for the licensing of trade secrets at least with respect to which no patent application has been made . . . has caused widespread concern.”).

56. *Painton*, 442 F.2d at 221. The tone of the criticism seems to be based in part on a perception that Judge Motley, as a woman, did not know much about the world of business and, in my opinion, is overstated.

57. *Painton*, 442 F.2d at 223.

58. *Id.*, citing Note, *Licenses—Enforceability—Royalty Provisions in Know-How Licensing Agreements Held Unenforceable—Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970), 84 HARV. L. REV. at 484 (“Rather than having a monopolistic tendency, like the Illinois law involved in *Sears* and *Compco*, the upholding of private agreements for the sharing of trade secrets on mutually acceptable terms tends against the owner’s hoarding them.”). As discussed in Section IV., *infra*, there is a difference between licensing practices that reduce the “monopolistic tendencies” of trade secret law and licensing practices that are equivalent to the disclosure purposes of patent law. The *Kewanee* court conflated the two concepts.

59. *Painton*, 442 F.2d at 224. Note, however, that the ordering of the categories is different from the order presented in *Kewanee*. See Section II.A., *infra*. The first category in *Painton* (clearly patentable) is Category 3 in the *Kewanee* analysis. *Id.* The second category (clearly not patentable) is also Category 2 in the *Kewanee* analysis. *Id.* The third category (questionable patentability) is Category 1 in the *Kewanee* analysis. *Id.* The *Painton* and *Kewanee* courts also differed in their identification of the category of most concern. For the *Kewanee* court it was the clearly patentable invention, and for the *Painton* court it was the invention of questionable patentability. *Id.*

The court viewed the first category as presenting little risk of diversion away from patent protection because a licensor could exact more money from the licensing of patented technology and because of the risk that trade secrets would be lost.<sup>60</sup> The court explained:

any conflict between patent policy and trade secret agreements . . . is readily resolved not by refusing to enforce a trade secret agreement but rather by refusing to grant or uphold a patent when the inventor has unduly delayed his application after the invention has been put to use.<sup>61</sup>

In other words, the potential conflict between patent and trade secret law is diminished as much by the strict requirements of patent law as it is by the scope and requirements of trade secret law.<sup>62</sup> If the

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60. *Painton*, 442 F.2d at 224.

61. *Id.* This argument refers to the “public use” and “on sale” bars to patent protection that are set forth in section 102(b) of the Patent Act. 35 U.S.C. § 102(b). An inventor is barred from obtaining a patent on her invention if it was in public use or on sale for more than one year prior to the filing of a patent application. As explained by the court in *Painton*, “[p]ublic use or sale” may be found even though the inventor has contracted for secrecy by a user or . . . has practiced the invention solely for his own purposes.” *Painton*, 442 F.2d at 224, n. 6, citing *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 18 (1829) and *Metallizing Eng’g. Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir. 1946). See also Tun-Jen Chiang, *A Cost-Benefit Approach to Patent Obviousness*, 82 ST. JOHN’S L. REV. 39, 70-71 (2008) (an inventor who files a patent application will have priority over a trade secret holder even if the trade secret holder was the first to conceive the invention. This creates a situation where the trade secret holder will lose both the trade secret protection and will also be excluded from patenting the trade secret); Bruce T. Atkins, 1996 U. ILL. L. REV. 1151, 1174-75 (1996) (a trade secret with patentable subject matter can become technically unpatentable due to public use, demonstration, or commercial exploitation more than one year prior to the date of application); *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 721 F.2d 1540, 1550 (Fed. Cir. 1983) (“As between a prior inventor who benefits from a process by selling its product but suppresses, conceals, or otherwise keeps the process from the public, and a later inventor who promptly files a patent application . . . the law favors the latter.”).

62. According to an amicus brief that was filed in *Kewanee* by the National Patent Council in 1974, only twenty-eight percent of patents were held valid when challenged. Brief for National Patent Council, Inc., *Kewanee Oil Co. v. Bicon Corp.*, 1973 WL 173805 (U.S.) (1973), p.1. See also GLORIA K. KOENIG, *PATENT INVALIDITY: A STATISTICAL AND SUBSTANTIVE ANALYSIS* 4-41, n. 35.2 (rev. ed. 1980) (finding patents were only held valid thirty-five percent of the time according to 1953-1977 data); and P.J. Federico, *Adjudicated Patents, 1948-54*, 38 J. PAT. OFF. SOC’Y 233, 236 (1956) (finding that only 30-40% of patents were held valid in cases where validity was in issue according to data from 1948-1954). Today, this number is much higher, suggesting that the “strict requirements of patent law” may not be applied as strictly today as they once were. See John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205 (1998) (Professor Allison and Professor Lemley concluded that forty-six percent of litigated patents were held invalid). See also Mark A. Lemley, *An Empirical Study of the Twenty-Year*

“secret” use of an invention results, after a year, in the inventor’s inability to obtain a patent, the court reasoned that such inventor would choose the patent route.<sup>63</sup> This, of course, assumes that the U.S. Patent and Trademark Office (USPTO) and the courts will apply the “stringent” requirements of patent law correctly.<sup>64</sup> It also means that if the ability of an inventor to delay the filing of a patent application has become easier since 1974, there is a greater potential for conflict between patent and trade secret law.<sup>65</sup>

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*Patent Term*, 22 AIPLA Q.J. 369, 420 (1994).

63. See generally *Painton*, 442 F.2d at 216, citing *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 18 (1829) (“‘Public use or sale’ may be found even though the inventor has contracted for secrecy by a user or, for that matter, has practiced the invention solely for his own purposes.”). This point was made in greater detail in a contemporaneous law review article by Gordon L. Doerfer. Gordon L. Doerfer, *The Limits of Trade Secret Law Imposed By Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432, 1441 (1967). As noted therein, theoretically, the “secret” use of an invention puts an inventor at risk of: (1) waiving her right to obtain a patent on the invention and (2) being able to claim the position of “first-to-invent.” *Id.*

64. Compare early cases defining “public use,” (e.g., *Coffin v. Ogden*, 85 U.S. 120, 125 (1873) (the invention accessible to public and therefore anticipated as prior use); cf. *Gayle v. Wilder*, 51 U.S. 477, 497-98 (1850) (invention not accessible and therefore not anticipated as prior art); H.R. Rep. No. 1923, 82d Cong., 2d Sess. 17 (1952) (the Reviser’s Notes to the 1952 Patent Act state that “[t]he interpretation by the courts of Section 102(a) as being more restricted than the actual language would suggest (for example ‘known’ has been held to mean ‘publicly known’) is recognized but no change in the language is made at this time.”); and *Connecticut Valley Enters., Inc. v. U.S.*, 348 F.2d 949, 952 (Ct. Cl. 1965) (stating that “prior knowledge or use in order to negative novelty must also be accessible to the public.”)) with post-1974 cases (e.g., *Full Mold Process, Inc. v. Cent. Iron Foundry Co.*, 489 F. Supp. 893, 900 (E.D. Mich. 1980) (stating that “courts have, at various times, inferred that the . . . use must be at least minimally accessible to the public. . . . [and] at its most restrictive, a requirement that no affirmative steps were taken to conceal the prior use.”); *Akzo N.V. v. U.S. Intern. Trade Comm’n*, 808 F.2d 1471, 1479 (1986) (“prior art reference must be enabling . . .”); *Cont’l Can Co. U.S.A. v. Monsanto Co.*, 948 F.2d 1264, 1270 (Fed. Cir. 1991) (no Section 102(b) “on-sale” bar when a device was “part of a terminated development project that never bore commercial fruit and was cloaked in confidentiality.”); *AMP Inc. v. Fujitsu Microelecs., Inc.*, 853 F. Supp. 808, 816-17 (M.D. Pa. 1994) (ideas mentioned in presentation to various companies did not invoke the public use bar; “those who attended the presentations were under an obligation of confidence.”); *Nordberg Inc. v. Telsmith, Inc.*, 881 F. Supp. 1252, 1284, 1293 (E.D. Wis. 1995), *aff’d*, 82 F.3d 394 (Fed. Cir. 1996) (stating “use or sale ceases to be experimental when the motivation is to exploit the invention and gain a competitive advantage over others.”); but see 1 DONALD S. CHISUM, CHISUM ON PATENTS § 3.05[2] (1998) (explaining generally that “anticipating prior use must be accessible to the public. A use under conditions of secrecy is not sufficient.”)). See also cases that state that the secret or purely private use of an invention does not constitute a public use and does not trigger the one-year deadline to file a patent application (e.g., *Root v. Third Ave. R. Co.*, 146 U.S. 210 (1892); *Nomadic Structures, Inc. v. Portable Exhibit Factory, Inc.*, 224 U.S.P.Q. 937 (C.D. Cal. 1984); and *Minn. Mining & Mfg. Co. v. Chemque, Inc.* 303 F. 3d 1294 (Fed. Cir. 2002)).

65. See discussion of post-1974 changes in patent law in Section III.A., *infra*. See also



As to the second category, the court expressed concern that denying trade secret protection would lead to the Patent Office being flooded with applications for unpatentable inventions.<sup>66</sup> Without trade secret protection, the court feared that innovators would choose to pursue patent protection even though it was clearly not available. The third category presented the greatest concern to the *Painton* court.<sup>67</sup> However, in the absence of empirical evidence, the court was unwilling to assume that a diversion from patent to trade secret protection would occur or to disrupt the licensing practices of industry.<sup>68</sup>

For over two years following the Second Circuit's decision in *Painton*, the practicing bar operated under the assumption that trade secret law could co-exist with patent law. That all changed in May of 1973, when the Sixth Circuit rendered its decision in *Bicron*.<sup>69</sup> Although the district court had refused to find that trade secret law was preempted by patent law, the court of appeals reversed and in so doing explicitly rejected the reasoning of *Painton* and similar cases.<sup>70</sup>

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James R. Barney, *The Prior User Defense: A Reprieve for Trade Secret Owners Or a Disaster for the Patent Law?*, 82 J. PAT. & TRADEMARK OFF. SOC'Y 261 (2000) (arguing that the adoption by Congress of Section 273 of the Patent Act to create a "prior user defense" for the alleged infringement of methods of doing business reduced the incentives for certain companies to obtain patent protection and thereby diminished the public domain.).

66. *Painton*, 442 F.2d at 224 ("There can be no public interest in stimulating developers of such know-how to flood an overburdened Patent Office with applications or what they do not consider patentable.").

67. *Id.* at 225 ("Since a rule invalidating the licensing or sale of know-how is not needed to promote patent applications in the first category and in the second would not promote any valuable ones and would be actually detrimental to the public interest, any case for such a rule must hinge on the third category—where the inventor is doubtful whether he can get a patent or, at least, a valid one."). While this category was of some concern to the *Kewanee* court, it was not the category of its greatest concern. It was most concerned with the first category discussed by the court in *Painton*, i.e., the case of validly patentable inventions. See *supra* note 59 and accompanying text.

68. *Painton*, 442 F.2d at 225-26 ("The district judge cited no data to prove that licensing of trade secrets had worked adversely to the public interest. To the contrary, such facts as have been brought to our notice indicate that the sharing of technological know-how on the basis of proper agreements has been beneficial not only within this country but in its relations with others."). Although not identified by the court as such, this is further evidence of the application of the "presumption against preemption." See *supra* note 45.

69. *Kewanee Oil Co. v. Bicron Corp. et al.*, 478 F.2d 1074 (6th Cir. 1973)

70. *Id.* at 1086-87 (1972) ("We recognize that our holding in this case is in conflict with the previously cited decisions of other Circuits, *Servo Corp. of Am. v. Gen. Elec. Co.*, 337 F.2d 716 (4th Cir. 1964), cert. den. 383 U.S. 934, 15 L. Ed. 2d 851, 86 S. Ct. 1061 (1966), rehearing denied 384 U.S. 914, 16 L. Ed. 2d 366, 86 S. Ct. 1333 (1966); *Dekar Indus., Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), cert. den. 402 U.S. 945, 91 S. Ct. 1621, 29 L. Ed. 2d 113 (1971); *Water Servs., Inc. v. Tesco Chems., Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971), but our analysis of the relationship

Significantly, unlike the court in *Painton*, the court in *Bicron* did not engage in a tripartite analysis based upon the hypothetical patentability of trade secret information. Rather, the court found that the information at issue in the case was patentable and that to protect it under trade secret law would interfere with federal patent policy.<sup>71</sup> The question for the court was “[w]hether a state trade secret law which protects an invention which would be an appropriate subject for a patent under the Patent Laws of the United States, and which has been used commercially for more than one year, conflicts with [federal patent policies].”<sup>72</sup> By finding a conflict, the court limited the period of time in which trade secrets licenses could be enforced to the period ending one year after the trade secrets were first disclosed to a licensee.<sup>73</sup>

With the conflicting decisions and reasoning of *Bicron* and *Painton*, the circumstances were ripe for review by the U.S. Supreme Court. Although the issue facing the Court was framed as a question of federal preemption, the broader question was how to reconcile the desire of states to prevent unfair competition and protect trade secrets with the strong public policy favoring free competition. Unfortunately, instead of addressing this broader issue, as it had done in the *Sears/Compco* cases, the Court’s analysis in *Kewanee* focused on the arguments that were raised by the parties and in the *amici briefs* and failed to directly consider how the availability of overlapping forms of state and federal protection might adversely effect competition. In other words, the

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between the Patent Laws of the United States and the Trade Secret Laws of the State of Ohio, as applied in this case, forces us to the conclusion that the field of protection afforded to this plaintiff by that Trade Secret Law has been preempted by the Patent Laws of the United States.”) (Emphasis added). The Sixth Circuit Court of Appeals is the court whose decisions were reversed by the U.S. Supreme Court in the *Sears/Compco* cases. In the *Sears/Compco* cases, the Sixth Circuit was chastised by the U.S. Supreme Court for not finding preemption. In *Kewanee*, they were careful to fully consider whether trade secret law interfered with the policies of patent law and were found wrong again. In light of this, it is important to understand how the facts and underlying state law of *Sears/Compco* differ from those in *Kewanee*. The differences are discussed in Section II, *infra*.

71. *Bicron*, 478 F.2d at 1086.

72. *Id.* at 1078.

73. According to U.S. patent law, an inventor will lose her patent rights if she does not file a patent application within one year of the first public use or sale of the invention. 35 U.S.C. § 102(b). Apparently, the Court of Appeals in *Bicron* felt that such date should mark the maximum length of trade secret protection as well. *Bicron*, 478 F.2d at 1078. What the court did not recognize is that the public use or sale necessary to trigger the one year deadline for filing a patent application may not amount to the destruction of trade secret rights. See *Metallizing Eng’g. Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (1946), cert. den. 328 U.S. 840. See also note 61, *supra*. This is a point that was emphasized by the Petitioner (*Kewanee*) in its brief to the Supreme Court.

*Kewanee* Court seems to have “missed the forest for the trees;” it was so focused on applying a traditional preemption analysis that it failed to recognize the need for a special approach to preemption issues when intellectual property rights are involved (What is referred to herein and elsewhere as “IP Preemption.”).

## II. *KEWANEE* DE-CONSTRUCTED

By the time the members of the Supreme Court began to contemplate the conflicting decisions and reasoning of *Bicron* and *Painton*, they had been presented with varying versions of the harm that would result from their decision. In one version, the petitioner (*Kewanee*) and several *amici* stressed the limited nature of trade secret law and lamented the horrible business environment that would result if states were not allowed to police unethical commercial behavior.<sup>74</sup> The respondent (*Bicron*) emphasized the disclosure benefits of U.S. patent law and argued that to recognize trade secret law, particularly with respect to information that falls within the scope of patentable subject matter, would unduly restrict the free flow of ideas.<sup>75</sup> Other commentators, like Roger Milgrim, told a story of the harm that would befall domestic industry and small businesses if they were not allowed to license their inventions as trade secrets.<sup>76</sup> To complicate matters further, then Solicitor General Robert Bork argued that to allow trade secret protection would in some situations be contrary to the strong policy of free competition while in other cases it would promote competition.<sup>77</sup> The challenge for the Court was to reconcile these competing views.

Rather than attempting to articulate a test for IP preemption that is

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74. Brief of the Petitioner, *Kewanee Oil Co. v. Bicron, Corp.*, 416 U.S. 470 (1974), 1973 WL 172411; Brief of Amicus Curiae Manufacturing Chemists Assoc’n, *Kewanee Oil Co. v. Bicron, Corp.*, 1973 WL 172414; Brief of the Ohio State Bar Assoc’n as Amicus Curiae in Support of Petitioner, *Kewanee Oil Co. v. Bicron, Corp.*, 1973 WL 172424.

75. See Brief of the Respondents, *Kewanee Oil Co. v. Bicron, Corp.*, 1973 WL 172412; Brief of Amicus Curiae National Patent Council, Inc. for Itself and Representing National Small Business Association, Inc., *Kewanee Oil Co. v. Bicron, Corp.*, 1973 WL 173805. See also Note, *Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards of Patentability*, 87 HARV. L. REV. 807 (1974).

76. See Milgrim, *supra* note 51; O’MEARA, HOW SMALLER COMPANIES PROTECT THEIR TRADE SECRETS, *supra* note 33. But see Brief of Amicus Curiae National Patent Council, Inc. for Itself and Representing National Small Business Association, Inc., *Kewanee Oil Co. v. Bicron, Corp.*, 1973 WL 173805.

77. Brief of the United States as Amicus Curiae, *Kewanee Oil Co. v. Bicron, Corp.*, 1974 WL 185610.

based upon principles of intellectual property law, the Court approached its task by addressing, *seriatim*, the arguments that were raised by the parties, the *amici*, and commentators.

*A. Argument One: The Limited Scope of Trade Secret Law*

The Court's analysis begins with a discussion of trade secret law as it was interpreted and applied by the State of Ohio. Based upon the language and structure of the Court's analysis of Ohio law, the Court was undoubtedly influenced by the *amicus* brief filed by the Ohio State Bar Association (hereinafter "Bar Association"). In that brief, the Bar Association repeatedly emphasized the narrow scope of Ohio's trade secret law.<sup>78</sup> Summarizing the requirements of Ohio law, it identified three fundamental requirements for the protection of trade secrets:

(1) the trade secret, whether patentable or not, must constitute proper matter for protection; (2) the person against whom relief is sought must have either violated or threatened to violate a contract or confidence not to disclose or use the secret; and (3) the matters for which protection is sought must be shown to be a secret.<sup>79</sup>

The Bar Association also noted that Ohio law "provides a trade secret holder with a cause of action *only* against those who obtain his trade secrets through improper means or where the use is in violation of a confident [sic] relationship, and then, *only* so long as the trade secrets remain secret."<sup>80</sup>

Picking up on the theme of the Bar Association's brief, the *Kewanee* court emphasized that for information to be protected by trade secret law it "must be secret, and must not be of public knowledge or of a general knowledge in the trade or business."<sup>81</sup> The Court also noted that although "[t]he subject of a trade secret must be secret," secrecy is not lost if the trade secret information is revealed "in confidence, and

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78. Brief of the Ohio State Bar Association as Amicus Curiae in Support of Petitioner, *Kewanee Oil Co. v. Bicron, Corp.*, 1973 WL 172424, 4-8.

79. *Id.* at 6.

80. *Id.* at 11. The Bar Association also stated, "Ohio trade secret law does not prohibit or exclude fair [sic, meant "fair"] competition, prohibit use of a trade secret by he who legitimately discovers or obtains it, or protect ideas in the public domain as did the state laws in *Sears, Compco* and *Lear*. . . ." *Id.*

81. *Kewanee*, 416 U.S. at 475, citing *B.F. Goodrich Co. v. Wohlgenuth*, 192 N.E.2d 99 (Ohio App. 1963) and *Nat'l Tube Co. v. Eastern Tube Co.*, 70 N.E. 1127 (Ohio 1903).

under an implied obligation not to use or disclose it.”<sup>82</sup> It recognized that there are two types of wrongs that trade secret law seeks to prevent: (1) the disclosure or use of a trade secret by one who is “under the express or implied restriction of nondisclosure or nonuse,”<sup>83</sup> and (2) the disclosure or use of a trade secret after it has been obtained by “improper means,” including theft, wiretapping, and aerial reconnaissance.<sup>84</sup> Lastly, the Court emphasized that trade secret protection is limited by the fact that it “does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering.”<sup>85</sup>

*B. Argument Two: Constitutional Preemption*

The Court next turned its attention to the question of federal preemption by first considering the possibility of Constitutional preemption.<sup>86</sup> As succinctly described in a later case involving a state tax law, the question under this type of preemption is whether all or some of Congress’s Article I powers are exclusive.<sup>87</sup> Specifically with reference to the issues addressed in *Kewanee*: Does the power conferred on Congress by Art. I, section 8, clause 1 of the U.S. Constitution preclude states from adopting laws that also are intended to promote the arts and sciences?

Based upon the reasoning of its 1972 decision in *Goldstein v. California*, the Court quickly dispensed with the argument that Constitutional preemption applied to preclude state trade secret laws.<sup>88</sup> Noting what the *Kewanee* Court described as “the great diversity of interests in the Nation—the essentially non-uniform character of the appreciation of intellectual achievements in the various States,” the Court in *Goldstein* ruled that states could enact laws to protect content

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82. *Kewanee*, 416 U.S. at 475.

83. *Id.*

84. *Id.* at 476. These two types of wrongs comprise the definition of “misappropriation” under the UTSA. Clearly, the drafters of the UTSA had this statement from *Kewanee* in mind when, in 1975, they renewed their efforts to adopt a Uniform Trade Secrets Act. See March 1976 version of draft Uniform Trade Secrets Act as proposed by the PTC Section (definition of “misappropriation” still in its formative stages) and compare to the language of “misappropriation” that is contained in the Uniform Trade Secrets Act as adopted.

85. *Id.*

86. *Id.* at 478-79.

87. See *Tyler Pipe Indus. v. Dept. of Revenue*, 483 U.S. 232, 261, 263 (1987) (Scalia, J., concurring and dissenting).

88. *Kewanee*, 416 U.S. at 478-79.

left unprotected by U.S. copyright law.<sup>89</sup> The Court applied the same reasoning in *Kewanee* when it observed, “just as States may exercise regulatory power over writings so may the States regulate with respect to discoveries.”<sup>90</sup> The only limitation on this power is that the operation of state laws cannot conflict with the operation of federal law.<sup>91</sup>

### C. Argument Three: Conflict Preemption

To determine whether state trade secret law conflicted with the operation of federal law, the Court turned its attention to the possibility of Supremacy Clause preemption.<sup>92</sup> After first noting that the Patent Act does not contain an express preemption provision, the Court ignored the possibility of field preemption and focused its attention on the doctrine of conflict preemption.<sup>93</sup> The essential question was whether state law “stands as an obstacle to the accomplishment and

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89. *Goldstein v. California*, 412 U.S. 546, 560 (1973) (holding that because U.S. copyright law did not (then) protect sound recordings, California was free to enact state laws to protect such content). Arguably, in light of international agreements that attempt to harmonize intellectual property laws, most notably the Agreement on Trade Related Aspects of Intellectual Property (TRIPS), to which all members of the World Trade Organization are subject, the “non-uniform character of the appreciation of intellectual achievements in the various States” has greatly diminished since 1973. *See id.*

90. *Kewanee*, 416 U.S. at 479.

91. *Id.*

92. U.S. CONST. art. VI, cl. 2. The basic question under the doctrine of Supremacy Clause preemption is whether a federal law, being the “supreme law of the land,” precludes the adoption of a similar state law. *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947). To answer this question, the Court has devised a number of tests, which, unfortunately, are not always clearly identified or defined in its preemption jurisprudence. *See infra* Section IV.

93. As the Supreme Court has explained:

Pre-emption may be either expressed or implied, and “is compelled whether Congress’ command is explicitly stated in the statute’s language or implicitly contained in its structure and purpose.” [Citations omitted.] Absent explicit pre-emptive language, we have recognized at least two types of implied pre-emption: field pre-emption, where the scheme of federal regulation is “so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it,” [citation omitted] and conflict pre-emption, where “compliance with both federal and state regulations is a physical impossibility,” [citation omitted] or where state law “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.” [Citations omitted].

*Gade v. Nat’l Solid Wastes Mgmt. Ass’n*, 505 U.S. 88, 98 (1992), citing *Jones v. Rath Packing Co.*, 430 U.S. 519, 525 (1977); *Shaw v. Delta Air Lines, Inc.*, 463 U.S. 85, 95 (1983); *Fidelity Fed. Sav. & Loan Ass’n v. De la Cuesta*, 458 U.S. 141, 152-53 (1982); *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230; *Fla. Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142-43 (1963); *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941); *Felder v. Casey*, 487 U.S. 131, 138 (1988); *Perez v. Campbell*, 402 U.S. 637, 649 (1971).

execution of the full purposes and objectives of Congress?”<sup>94</sup>

To determine whether Ohio’s trade secret law stood as an obstacle to the accomplishment of federal patent policies, the Court compared the objectives of patent law with the objectives of trade secret law. Not surprisingly, the Court identified the goal of encouraging innovation as the traditional and primary objective of U.S. patent law and the enhancement of “the general store of knowledge” as another important goal of patent law.<sup>95</sup> Consistent with long-standing trade secret doctrine, the maintenance of commercial ethics was identified as the primary objective of trade secret laws.<sup>96</sup> However, in an obvious effort to better align the objectives of patent law with the objectives of trade secret law, the Court also noted that trade secret laws encourage innovation by allowing innovators to protect inventions that may not be patentable.<sup>97</sup> The Court concluded that trade secret law did not conflict with the primary objective of patent law because there was nothing wrong with having multiple forms of incentives.<sup>98</sup>

While stretching to align the objectives of trade secret law with the objectives of patent law, the Court seemed to go out of its way to distinguish the types of information that are protected from trade secret law from the types of information that could be patented, thereby reducing the possibility of field preemption.<sup>99</sup> First, it noted the “rigorous” requirements for patent protection, including novelty, usefulness, and non-obviousness, suggesting in the process that not many patents are issued.<sup>100</sup> It also described what it perceived to be the limited set of inventions to which patent law applies.<sup>101</sup> While

94. *Kewanee*, 416 U. S. at 479, citing *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

95. *Kewanee*, 416 U. S. at 480-81. The latter objective was an obvious ode to the arguments that were made by Respondent. See Brief of Respondents, *Kewanee Oil Co. v. Bicon, Corp.*, 1973 WL 172412 (U.S.), at 12.

96. *Kewanee*, 416 U.S. at 481-82.

97. *Id.* at 485.

98. *Id.* at 484.

99. See *infra* Section IV. for a detailed explanation of the Supreme Court’s preemption jurisprudence, including so-called “field preemption.” Apparently, the U.S. Supreme Court in *Kewanee* didn’t directly address the question of field preemption because of Congress’ silence on the issue of preemption when it substantially revised the Patent Act in 1952. *Kewanee*, 416 U.S. at 493 (“Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection. Until Congress takes affirmative action to the contrary, States should be free to grant protection to trade secrets.”) See also, Brief Amicus Curiae of the American Bar Association, *Kewanee Oil Co. v. Bicon, Corp.*, 1973 WL 172420, 7-8.

100. *Kewanee*, 416 U.S. at 476, citing 35 U.S.C. §§ 101-103.

101. *Kewanee*, 416 U.S. at 476.

acknowledging that trade secret law protected many inventions before they were patented, the Court nonetheless characterized the typical trade secret as something less valuable than a true invention.<sup>102</sup> In particular, it noted that U.S. patent law—at least at the time of *Kewanee*—did not protect “customer lists,” “advertising campaigns,” and “business methods.”<sup>103</sup> Although the Court acknowledged that there was bound to be some overlap between information that was protected by trade secret law and information that could be patented, it suggested that the overlap was minimal.<sup>104</sup> Thus, consistent with its decision in *Goldstein*, the Court saw no difficulty with states regulating in an area “left unattended by Congress.”<sup>105</sup>

The fact that the *Kewanee* Court was careful to distinguish the scope of patent and trade secret law and invoke the language of *Goldstein* is not surprising given the Court’s obvious desire to preserve state trade secret laws. However, when confronted with the argument made in *Goldstein* that the *Sears/Compco* doctrine applied to preempt a criminal statute that made it a crime to copy sound recordings, the Court explained:

The standards established for granting federal patent protection to machines thus indicated not only which articles in this particular category Congress wished to protect, but which configurations it wished to remain free. The application of state law in these cases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn, and thereby necessarily gave way under the Supremacy Clause of the Constitution.<sup>106</sup>

Although the foregoing statement is *dicta*, it clearly highlights the Court’s belief that inventions that do not meet the standards for patentability should be free for anyone to use. Underlying such a concern, however, was an assumption that the non-patentable information would be in the public domain as it was in the *Sears/Compco* cases. The *Kewanee* case presented a new twist on an old

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102. *Id.* at 482 (“trade secret law protects items which would not be proper subjects for consideration for patent protection under 35 U.S.C. §101.”).

103. *Id.* at 483.

104. *Id.*

105. *Id.* at 482-83.

106. *Goldstein*, 412 U.S. at 569-570.



question: Does federal patent law preempt state laws that are designed to protect information that, by definition, is not yet in the public domain?

While the non-public nature of trade secret information served to distinguish the facts of *Kewanee* from the facts of the *Sears/Compco* cases, it threatened to interfere with the disclosure goals of patent law. As was explained in a 1967 law review article that was cited both by the court of appeals in *Bicron* and the Supreme Court in *Kewanee*, “[s]ince trade secret law discourages disclosure and enables an innovator to limit the circulation of his new ideas, a conflict between trade secret law and patent law is suggested.”<sup>107</sup> It was here where the Court saw the biggest potential for conflict between patent law and trade secret law.<sup>108</sup>

The author of the aforementioned article chose to deal with the apparent conflict between the disclosure purposes of patent law and the secrecy requirements of state trade secret law by arguing that the asserted patent policy of disclosure was overstated.<sup>109</sup> The Supreme Court in *Kewanee* took the opposite approach. Rather than downplaying the disclosure function of patent law, the Court stretched the purpose of trade secret law to include the dissemination of knowledge.<sup>110</sup> Following the lead of Judge Friendly in the *Painton* case, the Court then divided its analysis of the potential conflict between the

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107. Doerfer, *supra* note 63, at 1441. See also Brief of the United States as Amicus Curiae, *supra* note 11, at 16-17 (arguing for so called “partial preemption” of trade secret protection for patentable inventions and noting that the patent policy of disclosure would be undermined without such preemption). See also *Kewanee*, 416 U.S. at 485, and *Bicron*, 478 F.2d at 1082.

108. *Kewanee*, 416 U.S. at 484. See also *Universal Oil Prods. Co. v. Globe Oil & Ref. Co.*, 322 U.S. 471, 484 (1944) (noting that the *quid pro quo* for patent protection is “disclosure of a process or device in sufficient detail to enable one skilled in the art to practice the invention once the period of the monopoly has expired”). But see Note, *The Disclosure Function of the Patent System (or Lack Thereof)*, 118 HARV. L. REV. 2007, 2028 (2005) (arguing that disclosure is an elusive goal of the U.S. patent system).

109. Doerfer, *supra* note 63, at 1444 (“At least at the present stage, the policy of disclosure seems insufficiently developed to require that trade secret law be scrapped merely on the ground that it encourages nondisclosure. Indeed, the method in which the statute is administered seems to be quite compatible with the nondisclosure aims of trade secret law. The reluctance to require detailed specifications may be one example. Another is the requirement that patent applications be held in confidence.”). See also Note, *The Disclosure Function of the Patent System (or Lack Thereof)*, 118 HARV. L. REV. 2007 (2005) (providing a more recent challenge to the asserted disclosure purpose of patent law).

110. *Kewanee*, 416 U.S. at 482, 485-86, citing *Wexler v. Greenberg*, 160 A.2d 430, 435 (Sp. Ct. of Penn. 1960) (describing a disclosure function of trade secret law and noting that “the optimum amount of ‘entrusting’ will not occur unless the risk of loss to the businessman through a breach of trust can be held to a minimum.”).

disclosure purposes of patent law and state trade secret laws into three parts.<sup>111</sup> First, the Court considered the case of trade secrets that are within the scope of patentable subject matter but are clearly not patentable, e.g., because they are not new, useful, or non-obvious (hereinafter Category One).<sup>112</sup> Second, it considered the case of the invention of uncertain patentability (hereinafter Category Two). Finally, it considered the case of the patentable invention (hereinafter Category Three).

With respect to Category One, the Court saw no inconsistency with providing inventors with another (albeit weaker) form of protection.<sup>113</sup> The Court further opined that abolition of trade secret protection for clearly unpatentable inventions would actually result in more hoarding and less sharing of information.<sup>114</sup> Moreover, it expressed concern that abolition of trade secret protection would put small companies at a disadvantage by making it difficult to effectively license their innovations.<sup>115</sup>

Category 1 of the Court's analysis assumes that the patent requirements of novelty, usefulness, and non-obviousness can be clearly determined so that an inventor would choose trade secret protection over patent protection because she was certain patent protection was impossible. The more likely scenario is that the owner of information would not be certain about its patentability. With respect to this category of inventions (Category 2), the Court expressed skepticism that an innovator would choose to pursue trade secret protection even if

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111. *Kewanee*, 416 U.S. at 484.

112. *Id.* at 484-86.

113. *Id.* at 485, citing Doerfer, *supra* note 63 ("Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with the discovery and exploitation of his invention.").

114. *Id.* at 486, citing *Painton*, 442 F.2d at 223. Apparently, the genesis of this argument was a 1970 note in the *Harvard Law Review* article that criticized the district court's decision in *Painton*. See Note, *supra* note 42, at 482 ("Perhaps the most important argument in opposition to *Painton* is that an effective prohibition of know-how licensing would run counter to the policy in favor of dissemination of information. If an inventor whose discovery is not patentable is prevented from licensing for royalties, he will have no reason to divulge his know-how. In the case of inventors who do not engage in activities enabling them to use the know-how themselves ("non-manufacturing inventors"), the result would substantially deter research and development, contrary to patent policy.").

115. Like most of the factual assumptions that were relied upon in *Kewanee*, the observation is unsupported by any evidence. In fact what studies did exist at the time were inconclusive on the issue. O'MEARA *supra* note 33, at 44 ("widely varying opinions are voiced by the 56 survey cooperators" on the question of whether smaller companies are at a disadvantage in protecting trade secrets).

patent protection was questionable.<sup>116</sup> However, in the event that the innovator chose trade secret protection, the Court reasoned that the existence of trade secret law allowed for the more efficient exploitation of discoveries by encouraging innovators to share their inventions without delay (i.e., before they knew whether a patent would be issued).<sup>117</sup> It also noted that, without trade secret protection, there was a greater likelihood that the U.S. Patent and Trademark Office would be burdened with applications that were “doomed to be turned down.”<sup>118</sup> Thus, the Court reasoned that there was a greater potential of harm to society and patent policy if trade secret law was abolished than if it was preserved.<sup>119</sup>

Finally, the Court confronted what it believed was the most difficult scenario: the trade secret that is within patentable subject matter and clearly patentable (Category 3).

If a State, through a system of protection, were to cause a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on the state protection, we would be compelled to hold that such a system could not constitutionally continue to exist.<sup>120</sup>

The Court reasoned that there was “remote” risk that holders of patentable inventions would choose trade secret protection because trade secret law provides far weaker protection than patent protection.<sup>121</sup> As the Court explained, “[w]here patent law acts as a barrier, trade secret law functions relatively as a sieve.”<sup>122</sup> In the Court’s

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116. *Kewanee*, 416 U. S. at 487-88. This argument appears to be taken directly from a Note regarding the *Painton* case that appeared in the *Harvard Law Review*. Note, *supra* note 42, at 480-81. Like other factual assumptions upon which the Court relied, the argument is not supported by any evidence. See *supra* note 115.

117. *Id.* at 487-88. This argument is apparently based upon an assumption that innovators who choose to pursue patent protection would not license their inventions during the pendency of their patent applications. There is, however, no rule of patent law that precludes the licensing of inventions while a patent application is pending.

118. *Id.* at 487. This is the same concern that the *Painton* court expressed with respect to the same category of innovations. See *supra* note 66.

119. *Kewanee*, 416 U.S. at 489.

120. *Id.*

121. *Id.* at 489-90. In his concurring opinion, Justice Marshall disagreed with this conclusion and, instead, based his concurrence on his belief that there was no actual conflict between what he called “the two schemes of regulation” and no evidence of Congressional intent to preempt the field. *Id.* at 494-495.

122. *Id.* at 490.

mind, the threat that an invention that was maintained as a trade secret might be discovered by someone else would encourage most inventors to seek patent protection.<sup>123</sup> With respect to the rare inventor who would forego certain patent protection in favor of trade secret protection, the Court opined that scientific and technological progress would not be impeded by the resulting lack of disclosure because of what it identified as the “ripeness-of-time concept of invention,” i.e., the theory that inventions that are discovered by one person will soon be discovered by another.<sup>124</sup>

*D. Argument Four: The Partial Preemption Theory*

Having determined that the primary and secondary objectives of trade secret law did not clash with federal patent policies, the Court turned its attention to addressing the so-called “partial preemption” arguments of Solicitor General Bork.<sup>125</sup> The Court was not confronted with a state statute that sought to protect content left wholly unprotected by federal law like it had been in *Goldstein*. Nor was it confronted with a state statute, like that involved in *Sears/Compco*, which purported to protect content that was clearly in the public domain. Instead, because the Court chose not to apply the fact-specific analysis employed by the court of appeals in *Bicron*, it was confronted with the abstract question whether a state law that protected information that could fall both within and without the scope of patentable subject matter was preempted by federal law.

In his brief on behalf of the United States, Solicitor General Bork generally argued that state trade secret law should not be preempted.<sup>126</sup> However, he asserted three refinements to that general proposition, all of which would require an examination of the particular facts of a case. First, he noted that there “was a view within the government” that

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123. *Id.*

124. *Id.* at 490-91. This concept is also known as the theory of multiple independent discoveries. Apparently, as of 1974, there was a fairly well-developed literature on the topic. See Eugene Garfield, *Current Comments: Multiple Independent Discovery & Creativity in Science*, 44 CURRENT CONTENTS 5 (Nov. 3 1980), reprinted in 4 ESSAYS OF AN INFORMATION SCIENTIST 660 (1980) (describing the debate and the literature). Of particular significance is a 1974 study by William Hagstrom in which he surveyed 1718 research scientists, 46.2% of whom stated that their inventions had been anticipated once or twice. William O. Hagstrom, *Competition in Science*, 39 AMER. SOCIOLOGICAL REV. 1 (1974). Arguably, this concept is built into trade secret law by virtue of the rule that trade secret law does not preclude independent discovery or reverse engineering.

125. *Kewanee*, 416 U.S. at 491-92.

126. Brief of the United States as Amicus Curiae, *supra* note 77, at 5-6.

federal patent law does preempt state trade secret law when it seeks to protect patentable inventions.<sup>127</sup> Emphasizing the disclosure purpose of patent law, he noted that “[s]ince election by inventors to rely on trade secret law reduces disclosure by diverting inventions away from the patent system, technological progress is slowed, contrary to the goal of federal patent policy.”<sup>128</sup> Under this argument, trade secret protection for inventions that are clearly patentable should be preempted, with the *proviso* that such inventions could be protected as trade secrets during the preparation and pendency of the patent application.<sup>129</sup>

The second qualification concerned secrets that are unpatentable, not because they fall outside the scope of patentable subject matter, but because they do not meet the novelty and non-obviousness requirements of patent law.<sup>130</sup> In essence, and without reference to the specific details of Ohio law, Solicitor General Bork argued that state trade secret law should be preempted to the extent it seeks to protect technology that is not novel, i.e., technology that is “in the public domain.”<sup>131</sup> Inventions that were unpatentable because of obviousness would be less likely to be preempted.<sup>132</sup>

The third qualification urged by Solicitor General Bork concerned the scope and length of trade secret injunctions. Consistent with the fact-specific nature of his earlier arguments, he noted that perpetual injunctions “come [very close to a grant of patent protection for the secret]” and, therefore, intrude too much on federal patent policy.<sup>133</sup> This is because injunctions that last past the date when trade secrecy is lost are, in effect, providing state law protection for information that is in the public domain.

In response to the arguments of Solicitor General Bork, the Court first relied upon its earlier conclusion that trade secret law does not conflict with the federal policy favoring disclosure.<sup>134</sup> Secondly, it expressed concern that partial preemption would impose an impossible administrative burden on state courts.<sup>135</sup> Focusing only on the first

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127. *Id.* at 13.

128. *Id.*

129. *Id.* at 21-23.

130. *Id.* at 24-25.

131. *Id.*

132. *Id.*

133. *Id.* See also Adelman, *Secrecy & Patenting: Proposals for Resolving Conflict*, 1 AM. PATENT LAW ASS'N Q. 295 (1973).

134. *Kewanee*, 416 U.S. at 491-92.

135. *Id.* at 492.

qualification, the Court said that it did not want to put state courts in the difficult position of having to judge the patentability of inventions.<sup>136</sup> The Court did not directly address the additional arguments: (1) that state trade secret law is preempted to the extent that it seeks to protect content in the public domain; and (2) that perpetual injunctions are improper.<sup>137</sup>

*E. The Missing Analyses: Field Preemption and Free Competition*

Without any empirical evidence to support its conclusions, it is clear that the approach of the Court in *Kewanee* was highly influenced by a number of law review articles, the *amici* briefs that were filed, and by a general fear that to rule otherwise would disrupt the licensing practices of numerous businesses.<sup>138</sup> Interestingly, although just a year earlier the Court suggested in *Goldstein* that federal patent law “so occupied the field” that the doctrine of field preemption would apply to preclude state regulation of patentable and unpatentable inventions,<sup>139</sup> it failed in *Kewanee* to directly address the question of field preemption.<sup>140</sup> As discussed in Section IV *infra*, it also failed to discuss the free competition concerns that are at the heart of the *Sears/Compco* doctrine and the Court’s subsequent decision in *Bonito Boats*.<sup>141</sup>

III. THE CHANGED ASSUMPTIONS OF *KEWANEE*

As the foregoing indicates, the Supreme Court’s analysis in *Kewanee* is highly dependent upon factual assumptions and the Court’s understanding of the applicable scope of patent, copyright, and trade secret law. To the extent such assumptions and laws have changed, the reasoning underlying *Kewanee* must change as well or, at the very least, be re-examined. The following is an overview of the relevant changes to

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136. *Id.*

137. Arguably, these arguments were indirectly addressed when the Court described the limited scope of Ohio’s trade secret law. *See Kewanee*, 416 U.S. at 474-76.

138. *See, e.g.*, the Amicus brief of the Manufacturing Chemists Association in which it is argued, “Because the opinion below applies to anything and everything falling within the ‘subject matter’ jurisdiction of the patent laws, it would, if affirmed, apply to every advance in the extensive field of technology and thus, in effect, jeopardize the value of all secret technological information.” Brief of Amicus Curiae Manufacturing Chemists Association, *supra* note 11, at 17.

139. *Goldstein*, 42 U.S. at 569-570.

140. *See supra* note 99.

141. The Court’s discussion of the disclosure aspects of trade secret law have the seeds of a free competition argument, but a state’s interest in promoting free competition is never explicitly mentioned.

patent, copyright, and trade secret law that have occurred since 1974. The significance of these changes on the outcome and reasoning of *Kewanee* is discussed in Section IV, *infra*.

#### A. Changes to Patent Law since 1974.

The most significant change in patent law to occur since 1974 is the broadening of the scope of patentable subject matter.<sup>142</sup> In *Kewanee*, the Supreme Court relied heavily upon its understanding that patent protection was not available for advertising schemes and business methods.<sup>143</sup> This is no longer the case. Although the wording of Section 101 of the Patent Act has not changed since 1974, the interpretation and application of that provision has changed dramatically.<sup>144</sup> At the time of *Kewanee*, a number of judicially created doctrines existed to preclude the patentability of life forms, business methods, and computer software.<sup>145</sup> Due to post-1974 developments, including the Supreme Court's decision in *Diamond v. Chakrabarty*, these doctrines no longer apply.<sup>146</sup> Instead, as artfully stated in *Chakrabarty*, an inventor can seek a patent for "anything under the sun that is made by man."<sup>147</sup>

Another important change in patent law since 1974 occurred to the

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142. For a detailed explanation of these changes, see Brianna Dolmage, *The Evolution of Patentable Subject Matter in the United States*, 27 WHITTIER L. REV. 1023 (2006) (detailing the history of Section 101 of the Patent Act, including the development and subsequent demise of various exceptions to the scope of patentable subject matter); Sam S. Han, *Analyzing the Patentability of "Intangible" Yet "Physical" Subject Matter*, 3 COLUM. SCI. & TECH. L. REV. 1, 21-64 (2002) (detailing the federal courts' struggle with patentable subject matter); Ralph D. Clifford, *The Federal Circuit's Cruise to Uncharted Waters: How Patent Protection for Algorithms and Business Methods May Sink the UCITA and State Intellectual Property Protection*, 73 TEMP. L. REV. 1241, 1241-62 (2000) (reviewing the expansion in the scope of patentable subject matter, including the demise of the mathematical algorithm exception and the business methods exception to patent protection); Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L. J. 577 (1999) (describing and criticizing the grant of business method patents); Robert A. Kneiss, *Patent Protection for Computer Programs and Mathematical Algorithms: The Constitutional Limitations on Patentable Subject Matter*, 29 N.M. L. REV. 31 (1999).

143. *Kewanee*, 416 U.S. at 483.

144. See *supra* note 142.

145. See, e.g., *Ex parte Latimer*, (1889) C.D. 123 (establishing the early principle that plants are natural products not subject to patent protection); *Diamond v. Diehr*, 450 U.S. 175, 185-86 (1981) (noting a limitation on the patenting of abstract ideas, including mathematical algorithms); *Funk Bros. Seed Co. v. Kalo Inoculant, Co.*, 333 U.S. 127 (1948) (refusing to grant a patent on a bacteria found in nature); *U.S. Credit Sys. Co. v. Am. Credit Indem. Co.*, 59 F. 139, 143 (2d Cir. 1893) (refusing a patent for a method of doing business).

146. See *supra* note 142.

147. *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

rules governing the disclosure of patent applications. As noted in a pre-*Kewanee* law review article, there are a number of principles of U.S. patent law that promote the public disclosure of inventions, including:

1. The ability of a second inventor to obtain a patent for an invention that was kept secret by the first inventor;<sup>148</sup>
2. The inability of a patent applicant to obtain a patent (or successfully assert a patent's validity) if the invention was used for more than a year before a patent application was filed;<sup>149</sup> and
3. The requirement that a patent applicant fully disclose her invention in the specification portion of a patent application.<sup>150</sup>

In the opinion of the article's author, however, because these principles were not "vigorously" applied by the U.S. Patent and Trademark Office (USPTO), they did not reflect a policy of public disclosure that was strong enough to trump state trade secret law. The author cautioned that if the federal patent law was altered in the future to reflect a more vigorous policy of disclosure, then a renewed preemption analysis would be required.<sup>151</sup>

Since *Kewanee*, there is no question that the patent policy of public disclosure has become more vigorous both as a legal and a practical matter. In 1974, only information that was contained in an issued patent was disclosed to the public, and to obtain access to such records required a physical visit to the offices of the USPTO, which were then in Washington, D.C.<sup>152</sup> Thus, an inventor who unsuccessfully sought to patent her invention could still attempt to protect it under trade secret law. Since 1999, the presumptive rule is that all U.S. patent applications

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148. Doerfer, *supra* note 63, at 1442, citing 35 U.S.C. § 102(a).

149. *Id.*, citing *Pierce v. Ben-Ko-Matic, Inc.*, 310 F.2d 475 (9th Cir. 1962); *MacBeth-Evans Glass Co. v. Gen. Elec. Co.*, 246 F. 695 (6th Cir. 1917); Clay, *The Relation of the Examiner to the Inventor and His Attorney*, 1 J. PAT. OFF. SOC'Y 8, 13-16 (1918); and Note, *Prior Art in the Patent Law*, 73 HARV. L. REV. 369, 384-85 (1959).

150. Doerfer, *supra* note 63, at 1442-43, citing 35 U.S.C. § 112.

151. *Id.* at 1447.

152. 35 U.S.C. § 122(a) (1974). See also HOWARD I. FORMAN & CHARLES M. ALLEN, PATENTS, RESEARCH AND MANAGEMENT: A GUIDE FOR INVENTORS AND EXECUTIVES (Central Book Co. 1961); JOHN W. KLOOSTER, THE GRANTING OF INVENTIVE RIGHTS (Intel-Lex 1965); *Popular Mechanics*, vol. 112 no. 2 (New York 1959) (giving advice on how to search for prior patents and do-it-yourself patent filing information).



are published eighteen months after they are filed and remain disclosed even if a patent is not ultimately granted.<sup>153</sup> Thus, the disclosure policy of U.S. patent law operates much earlier and with respect to more inventions than it did at the time of *Kewanee*.<sup>154</sup> Moreover, patent records of the USPTO are now available for review over the Internet, making what is disclosed in such applications available worldwide.<sup>155</sup> The end result of both developments is that today's patent disclosure policies result in the disclosure of more information and, arguably, increase innovators' interest in trade secrecy as an alternative.<sup>156</sup> This, in turn, creates a greater conflict between the disclosure objectives of patent law and the secrecy requirements of trade secret law.

#### B. Changes to Copyright Law since 1974

*Kewanee* was decided more than a year before the adoption of the

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153. 35 U.S.C. § 122(b)(1) (1999); 37 C.F.R. § 1.215 (2007) (stating that the content of a patent application publication, which can include amendments, will have the date of publication, and the content will be based on the specifications and drawings deposited on the filing date of the application and also the executed oath or declaration to complete the application). See also *Manual of Patent Examining Procedure* § 1121 (8th ed. 2007). The exceptions to this rule concern applications that (i) are no longer pending (i.e., have been withdrawn before eighteen months), (ii) are subject to a secrecy order, (iii) are provisional applications, or (iv) are for a design patent. 35 U.S.C. § 122(b)(2)(A). The rule also does not apply to applications in which the applicant certifies that the invention has not and will not be the subject of a patent application in a foreign country. 35 U.S.C. § 122(b)(2)(B).

154. The disclosure is earlier because it happens at eighteen months instead of when the patent issues, typically more than three years after a patent application is filed. The rule results in the disclosure of more information because it applies both to applications that result in issued patents and those that do not. See also David Silverstein, *Will Pre-Grant Patent Publication Undermine United States Trade Secret Law?*, 23 AIPLA Q.J. 695, 724 (1995) (describing the state of the law before the 1999 changes to the Patent Act and opining that the new disclosure rules undermine the reasoning of *Kewanee* and threaten trade secret protection) ("[T]here would suddenly be a public benefit in compelling the filing of patent applications even for subject matter that was clearly unpatentable or where patentability was in doubt.").

155. The USPTO electronic databases for full issued patents and published applications are available at <http://www.uspto.gov/patft/index.html> (last visited Jan. 23, 2008); Database search for European patents and others around the world, available at <http://www.espacenet.com/index.en.htm> (last visited Jan. 23, 2008); Google Patent Search offers a searchable database of over seven million U.S. patents. Some patents date back as long ago as 1790, available at <http://www.google.com/patents> (last visited Jan. 23, 2008); the Department of Energy (DOE) offers patent and application search of DOE-sponsored or DOE-owned patents, available at <http://www.osti.gov/gencoun/search.easy.jsp> (last visited Jan. 24, 2008); the Canadian Intellectual Property Office offers a searchable database of over seventy-five years of patent images and descriptions, available at <http://patents.ic.gc.ca/cipo/cpd/welcome.html> (last visited Jan. 24, 2008).

156. See *infra* note 227 for a discussion of the factors that influence the choice between patent and trade secret protection.

1976 Copyright Act and more than three years before that act went into effect on January 1, 1978.<sup>157</sup> Thus, the Supreme Court did not consider the substantial changes that the 1976 Copyright Act wrought to U.S. copyright policy. Most significantly, in 1974 it was clear that unpublished works of authorship were not protected by federal copyright law.<sup>158</sup> Since the 1909 Copyright Act (the Act in effect at the time) required works of authorship to be “published” (i.e., publicly disseminated) to obtain copyright protection, by definition “copyrighted” works were not secret.<sup>159</sup> Thus, it was inconceivable that a work protected by copyright law would also be “secret” as that term is understood under trade secret law.<sup>160</sup>

The 1976 Copyright Act altered the state of copyright law in at least three ways that bear directly upon trade secret law and the *Kewanee* decision. First, the scope of copyrightable subject matter was defined and broadened.<sup>161</sup> Second, copyright protection became automatic for

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157. An Act for the general revision of the Copyright Law, Title 17 of the United States Code, and for other purposes, Pub. L. No. 94-553, 90 Stat. 2541 (1976).

158. See generally the 1909 Copyright Act §§ 10-11, Pub. L. 281, 80th Cong., (in effect from Oct. 25, 1972 until Dec. 30, 1974). Under the 1909 Act, at the time a work was created, the author of the work acquired so-called “common law copyright” protection. 17 U.S.C. § 2 (1909). See also *Estate of Martin Luther King, Jr., Inc. v. CBS, Inc.*, 194 F.3d 1211, 1214 (11th Cir. 1999). The common law gave owners various rights with respect to privacy of the work, the right to first publication, relief from infringement, relief from unfair competition, unjust enrichment, and conversion. MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 4.01[B] (2004). Owners enjoyed these protections until the work was published. *Id.* See also Note, *Trade Secrets Law After Sears and Compco*, 53 VA. L. REV. 361 (noting the pre-1978 recognition of claims for common law copyright to protect unpublished works and the tendency of courts to apply a narrow definition of publication).

159. Upon publication, if an author or owner complied with the 1909 Act’s formalities—application of notice of copyright and deposit of two copies of the work in the U.S. Copyright Office—the common law protection converted to a federal statutory copyright. NIMMER ON COPYRIGHT § 7.01[A]. See also 17 U.S.C. § 10 (1909) (“Any person entitled thereto by this title may secure copyright for his work by publication thereof with the notice of copyright required by this title . . .”).

160. Under the UTSA and the trade secret law applied in *Kewanee*, information is not a secret if it is “generally known” or “readily ascertainable.” See *Kewanee*, 416 U.S. at 474-75; Uniform Trade Secrets Act § 1 (amended 1995) (“generally known and easily ascertainable requirement” does not apply to the public at large but to those who can gain a competitive, economic advantage from knowing the information. Information is “readily ascertainable” if it is available in books, pamphlets, brochures, or published trade journals.). Being able to obtain a work of authorship from the Library of Congress clearly makes it readily ascertainable even if the information contained in the work may not be generally known.

161. 17 U.S.C. § 102 (1976). Also, as noted by the Court in *Goldstein*, U.S. copyright law was expanded in 1971 to protect “sound recordings.” *Goldstein*, 412 U.S. at 551-52, citing Pub. L. 92-140, 85 Stat. 391 (1971).

all “original works of authorship fixed in any tangible medium of expression.”<sup>162</sup> Thus, it is no longer necessary for the creators of works of authorship to “publish” (and thereby disclose) their works in order to obtain copyright protection.<sup>163</sup> Rather, the 1976 Copyright Act explicitly extended copyright protection to unpublished works of authorship.<sup>164</sup> This change, coupled with the broad definition of “works of authorship” contained in the 1976 Copyright Act,<sup>165</sup> and the low standard of originality required for a work to be protected by copyright law,<sup>166</sup> means that some “unpublished” secret information that once was only protected by state trade secret law is now subject to copyright protection as well.<sup>167</sup> This raises the question, unaddressed by *Kewanee*, whether state trade secret law is preempted by U.S. copyright law.

### C. Changes to Trade Secret Law since 1974

While the changes to patent and copyright law undermine the reasoning of *Kewanee* (as discussed more fully in Section V. *infra*), the changes that have occurred in trade secret law since 1974 arguably bolster the *Kewanee* Court’s reasoning. This is because of the development of the Uniform Trade Secrets Act (UTSA) and its subsequent enactment by most states.<sup>168</sup>

At the time the UTSA was approved in 1979, the drafting committee was cognizant of the *Kewanee* decision and was careful to incorporate into the UTSA all of the limitations on trade secret law that the Court

162. 17 U.S.C. § 102(a) (1976).

163. 17 U.S.C. § 104(a) (1976).

164. 17 U.S.C. § 102 (1976). The 1976 Act largely preempts state common law protection. NIMMER ON COPYRIGHT § 8[C]02.

165. 17 U.S.C. § 102 (1976).

166. See generally *Feist Publ’ns v. Rural Tel. Serv.*, 499 U.S. 340 (1991).

167. If trade secret information is fixed in a tangible form and includes a modicum of creativity (i.e., it is not mere facts or other content unprotected by copyright law), it is protected at least in part by copyright law. See Stephen M. Dorvee, *Protecting Trade Secrets Through Copyright*, 1981 DUKE L. J. 981, 990-991 (1981). See also Viva R. Moffat, *Mutant Copyrights and Backdoor Patents: The Problem of Overlapping Intellectual Property Protection*, 19 BERKELEY TECH. L. J. 1473 (2004) (discussing how the expansion of the scope of patent, copyright, and trademark law has resulted in a greater likelihood of overlapping intellectual property protection).

168. According to the National Conference of Commissioners on Uniform State Laws website, either the 1979 or 1985 version of the UTSA has now been adopted by forty-five states, the District of Columbia, and the U.S. Virgin Islands. See A Few Facts About the . . . Uniform Trade Secrets Act, [http://www.nccusl.org/update/uniformact\\_factsheets/uniformacts-fs-utsa.asp](http://www.nccusl.org/update/uniformact_factsheets/uniformacts-fs-utsa.asp) (last visited Aug. 27, 2007).

recognized in the trade secret law of Ohio.<sup>169</sup> Furthermore, although the UTSA tracks the *Kewanee* Court's recitation of the narrow scope of Ohio's trade secret law, the UTSA limited the scope of protection even more by: (1) imposing the requirement that the information derive independent economic value from being secret; (2) refusing to extend its coverage to mere "confidential" information; (3) limiting the length of injunctive relief; and (4) specifically precluding other common law causes of action.<sup>170</sup> Consistent with the law applied in *Kewanee*, the UTSA also requires that the defendant in a trade secret case engage in a wrongful act, i.e., "misappropriation" in the parlance of the UTSA.<sup>171</sup>

Because the UTSA narrowed the universe of information that can qualify for trade secret protection, it arguably reduces the conflicts that can occur between patent, copyright, and trade secret law. Whether this reduction is sufficient to counterbalance the increased conflicts that occur as a result of post-1974 changes to patent and copyright law is the critical question. Consistent with the Court's reasoning in *Kewanee*, the narrowing of the scope of trade secret protection should incentivize more inventors to seek patent protection because trade secret protection is weaker than at the time of *Kewanee*.<sup>172</sup> However, whether an inventor decides to pursue patent protection depends on a number of practical, economic, and strategic considerations that were not considered by the *Kewanee* Court.<sup>173</sup> The existence of conflict also depends a great deal on how state courts interpret and apply the UTSA. If, as Solicitor General Bork feared, state courts apply state trade secret law in a manner that results in the protection of public domain information or perpetual injunctions, then a clear conflict with federal patent and copyright policies is created.

#### IV. KEWANEE REFRESHED

Given that patent, copyright, and trade secret law has changed substantially since 1974, it is necessary to consider whether either the outcome or reasoning of *Kewanee* must change as a result. As is discussed in more detail in the subsections that follow, hindsight reveals that there are at least four problems with the *Kewanee* Court's

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169. Sandeen, *supra* note 13 at p. 132, n. 50.

170. *Id.* 129-32, n. 38-45.

171. Uniform Trade Secrets Act § 1(2) (amended 1985), definition of "misappropriation."

172. *See supra* note 121.

173. Discussed in Section IV., *infra*.

preemption analysis. First, it is too narrow because it fails to apply all relevant preemption doctrines. In addition to the issues of constitutional preemption and conflict preemption, there are two other Supremacy Clause preemption doctrines that must be examined: express preemption and field preemption. Second, the *Kewanee* Court's preemption analysis is based upon factual assumptions that, at best, are unsupported by any empirical evidence and, at worst, are untrue.<sup>174</sup> In particular, the analysis relies heavily upon the beliefs that trade secret law encourages the disclosure of information through licensing and that, when given the choice, inventors are likely to choose trade secret protection over patent protection. Neither statement is accurate.

The third problem with the *Kewanee* Court's analysis is that it fails to clearly articulate a workable test for determining when state laws that provide protection for information that is also protected by federal law should be preempted. Although given the opportunity to clarify its decisions in *Sears/Compco* and mollify fears that *Sears/Compco* was the death knell of all state unfair competition laws, the Court chose to focus its analysis on Ohio's trade secret law. In so doing, the Court provided little guidance on how to evaluate cases where state law potentially could, but did not always, protect information that is also protected by federal law. Related to this weakness in the Court's analysis is a fourth problem: the reluctance of the Court to consider the possibility that, although state law may not be preempted on its face, it can be preempted "as applied."

#### A. Problem One: The Court's Preemption Analysis is Incomplete

As noted above, the *Kewanee* Court's preemption analysis began with a question of constitutional preemption, i.e., whether Article I, Section 8, Clause 8 of the U.S. Constitution vests exclusive power in Congress "to promote the Progress of Science and Useful Arts."<sup>175</sup> The Court in *Goldstein* answered this question in the negative and nothing has happened since 1974 to alter the Court's view that, under the patent and copyright clause of the Constitution at least, states are free to regulate in areas left unattended by federal law. The Constitutional preemption doctrine, however, is not the only preemption doctrine that is recognized by the Supreme Court. There is also what is known as "Supremacy Clause preemption."<sup>176</sup>

174. See *supra* notes 115-117; *infra* Section IV.B. and accompanying text.

175. See *supra* Section II. B.

176. See *supra* notes 92, 93.

Although defined in various ways by different courts and commentators, in essence there are two types of Supremacy Clause preemption: express preemption and implied preemption.<sup>177</sup> Express preemption of state law occurs when a provision of federal law is adopted that states that similar state laws are preempted.<sup>178</sup> As the label suggests, implied preemption occurs when the federal regulatory scheme is such that it can be inferred that Congress intended to preclude the application of similar state laws.<sup>179</sup> Implied preemption is generally sub-divided into “field preemption” and “conflict preemption.”<sup>180</sup>

### 1. Express Preemption

At the time of *Kewanee*, no viable argument could be made that federal law expressly preempted state trade secret law because no provision of federal law, particularly the Patent Act, expressed the intent of Congress to preclude state trade secret law. More than thirty-three years after *Kewanee*, there is still no express preemption provision contained in the Patent Act.<sup>181</sup> Instead, since *Kewanee* was decided, the U.S. Congress has amended the Patent Act several times and could have expressed its intent to preempt trade secret laws.<sup>182</sup> It not only did not

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177. See *supra* note 93. See also Caleb Nelson, *Preemption*, 86 VA. L. REV. 225, 227 (2000) and Sara A. Colangelo, *The Politics of Preemption: An Application of Preemption Jurisprudence and Policy to California Assembly Bill 1493*, 37 ENVTL. L. 175, 184 (2007). See also Pamela Samuelson & Kurt Opsahl, *How Tensions Between Intellectual Property Policy and UCITA are Likely to be Resolved*, 570 PLI/PAT 741 (1999) (describing the various types of preemption).

178. *Jones v. Rath Packing Co.*, 430 U.S. 519, 525 (1977) (“Congress’ command is explicitly stated in the statute’s language or implicitly contained in its structure and purpose.”). See also *Cipollone v. Liggett Group, Inc.*, 505 U.S. 504, 516 (1992), quoting *Jones*, 430 U.S. at 525.

179. *Cipollone*, 505 U.S. at 516. See also *Pennsylvania v. Nelson*, 350 U.S. 497, 504 (1956) (describing implied preemption when there is federal occupation of a field in such a way that there is “no room” left for state regulation); *Pac. Gas & Elec. Co. v. State Energy Res. Conservation & Dev. Comm’n*, 461 U.S. 190, 204 (1983) (concluding that in the absence of an express congressional command, state law is preempted when that law “actually conflicts with federal law”); *Fidelity Fed. Sav. & Loan Ass’n v. de la Cuesta*, 458 U.S. 141, 153 (1982) (concluding that if federal law so thoroughly occupies a legislative field “as to make reasonable the inference that Congress left no room for the States to supplement it,” then preemption occurs).

180. See *Sprietsma v. Mercury Marine*, 537 U.S. 51-64 (2002); and *Aerocon Eng’g, Inc. v. Silicon Valley Bank (In re World Auxiliary Power Co.)*, 303 F.3d 1120, 1128-29 (2002).

181. *Kewanee*, 416 U.S. at 480 (“The patent law does not explicitly endorse or forbid the operation of trade secret law.”). Note also that since 1974, the U.S. Congress adopted the federal Electronic Espionage Act. See *infra* notes 183, 184 and accompanying text.

182. This point was also made in Petitioner’s brief wherein it is noted:

do so, but it adopted a trade secret law of its own known as the Economic Espionage Act of 1996.<sup>183</sup> That Act contains a savings clause, which states: "This chapter shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret."<sup>184</sup> Thus, if state trade secret law is preempted by patent law it must be based upon a theory of implied preemption.

In contrast to the Patent Act, there is an express preemption provision in the 1976 Copyright Act. Section 301(a) of the 1976 Copyright Act provides:

On or after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or *unpublished*, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.<sup>185</sup>

The U.S. Supreme Court has yet to render a decision concerning the scope and meaning of Section 301 of the Copyright Act (hereafter referred to as "section 301 preemption"). The circuit courts that have

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Many times prior to the codification of the patent laws in 1952, this Court held that state trade secret law could peacefully coexist with the federal patent law. In view of these holdings, there is no basis for thinking that Congress could have intended that by enacting the Patent Code it was doing away with the states' right to protect trade secrets from misappropriation by persons who stood in a fiduciary relationship to the trade secret proprietor and had expressly agreed to keep the secrets in confidence.

Brief of Petitioner, *supra* note 74, at 41.

183. Pub. L. No. 104-294, 110 Stat. 3488 (1996). See also Gerald J. Mossinghoff et al., *The Economic Espionage Act: A New Federal Regime of Trade Secret Protection*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 191 (1997).

184. 18 U.S.C. § 1838 (1996).

185. 17 U.S.C. § 301(a) (1976). In contrast, the 1909 Copyright Act contained a savings clause that stated, "Nothing in this title shall be construed to annul or limit the right of the author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication, or use of such unpublished work without the consent, and to obtain damages therefor." 17 U.S.C. § 2 (1909).

considered the question, while differing somewhat in their interpretation and application of section 301 preemption, generally agree that a state statute is expressly preempted if: (1) the information to be protected falls within the scope of copyrightable subject matter; and (2) the rights asserted under the state law are equivalent to the rights contained in the U.S. Copyright Act.<sup>186</sup>

According to most circuit courts, the subject matter requirement not only takes into account what is protected under U.S. Copyright law, but what is not protected.<sup>187</sup>

The subject matter requirement of Section 301 is satisfied if a work fits within the general subject matter of Sections 102 and 103 of the Copyright Act, regardless of whether it qualifies for copyright protection. [Citation omitted.] In *Wrench*, this court joined several other circuits in holding that for purposes of preemption, the scope of the Copyright Act's subject matter is broader than the scope of its protection.<sup>188</sup>

The foregoing rule is consistent with the Supreme Court's observation in *Goldstein* that "[a] conflict would develop if a State attempted to protect that which Congress intended to be free from restraint or to free that which Congress had protected."<sup>189</sup>

Based upon the broad definition of section 301 preemption subject matter, it is fairly easy for courts to conclude that information that is

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186. See *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 455 (6th Cir. 2001); *Nat'l Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 848 (2d Cir. 1997); *United States ex rel. Berge v. Board of Trs. of the Univ. of Ala.*, 104 F.3d 1453, 1463 (4th Cir. 1997); *ProCd, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453 (7th Cir. 1996); *Firoozye v. Earthlink Network*, 153 F. Supp. 2d 1115, 1123-24 (N.D. Cal. 2001); and *Meridian Project Sys., Inc. v. Hardin Constr. Co., LLC*, 79 U.S.P.Q.2d 1691, 1693 (E.D. Cal. 2006).

187. *Wrench LLC*, 256 F.3d at 455. But see *Dunlap v. G & L Holding Group, Inc.*, 381 F.3d 1285, 1295 (11th Cir. 2004) (holding that Section 301 subject matter is limited to "only those elements that are substantively qualified for copyright protection"), citing *Warren Publ'g, Inc. v. Microdos Data Corp.*, 115 F.3d 1509, 1514 (11th Cir. 1997).

188. *Stromback v. New Line Cinema*, 384 F.3d 283, 309 (6th Cir. 2004), citing *Wrench LLC*, 256 F.3d at 454-55; and *Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 676 (7th Cir. 1986), quoting H.R. Rep. No. 94-1476, at 131, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5747.

189. *Goldstein*, 412 U.S. at 559. As the Seventh Circuit Court of Appeals recently explained, "*Baltimore Orioles* holds that state laws that intrude on the domain of copyright are preempted even if the particular expression is neither copyrighted nor copyrightable. Such a result is essential in order to preserve the extent of the public domain established by copyright law." *Toney v. L'Oreal USA, Inc.*, 406 F.3d 905 (7th Cir. 2005), referring to its earlier decision in *Baltimore Orioles, Inc.*, 805 F.2d 663.



sought to be protected by state law meets the first requirement of section 301 preemption. If the information is “fixed in tangible form,” it is either expressly protected by copyright because it is “original,” or it is excluded from copyright protection because it does not meet the originality requirement or because it is a type of information for which copyright protection is unavailable.<sup>190</sup> Thus, to the extent trade secrets are “fixed,” they meet the subject matter requirement of section 301 preemption, and the second requirement of the statute must be examined.

While some trade secrets may escape section 301 preemption because they are not fixed in tangible form, the more likely preemption question is whether trade secret claims meet the “equivalency requirement” of section 301 preemption (also referred to as the “general scope requirement”). As the Second Circuit has explained:

The general scope requirement is satisfied only when the state-created right may be abridged by an act that would, by itself, infringe one of the exclusive rights provided by federal copyright law. [Citation omitted.] In other words, the state law claim must involve acts of reproduction, adaptation, performance, distribution or display. [Citations Omitted.] Further, the state law claim must not include any extra elements that make it qualitatively different from a copyright infringement claim. [Citations Omitted].<sup>191</sup>

The circuit courts that have considered whether state trade secret laws are expressly preempted by Section 301 of the Copyright Act have typically found that they provide the “extra element” needed to avoid

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190. Section 102(b) of the 1976 Copyright Act provides that “[i]n no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such works.” 15 U.S.C. § 102(b) (1976). The Copyright Act, therefore, clearly channels the protection of such works elsewhere; namely, toward patent and trade secret law. However, it is a mistake to consider the works listed in Section 102(b) as being coextensive with the types of works that can be protected by trade secret law. Although Section 102(b) lists information that is traditionally thought of when one thinks of trade secrets, there are other bits and bodies of information that may be trade secrets and that, conceivably, could be protected by copyright law as well. This includes, for instance, written forms and customer lists.

191. 17 U.S.C. § 106; *Briarpatch Ltd. v. Phoenix Pictures, Inc.*, 373 F.3d 296, 305-06 (2d Cir. 2004), citing *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir. 1992); and *Nat'l Basketball Ass'n v. Motorola Inc.*, 105 F.3d 841, 851 (2d Cir. 1997).

express preemption.<sup>192</sup> More often than not, those courts cited the misappropriation prong of trade secret law as the required extra element.<sup>193</sup> However, whether state trade secret law (or any state unfair competition law for that matter) is expressly preempted by Section 301 ultimately depends upon the precise wording of the state statute and, arguably, the precise allegations of the plaintiff's complaint. It is not enough for courts to rely upon the extra elements supplied by the UTSA; they should also carefully examine the character of the information sought to be protected and the essential nature of the underlying action.<sup>194</sup> Obviously, even if an extra element appears to exist on the face of a challenged state statute, it is rendered meaningless in cases where trial courts fail to require proof of the extra element.

## 2. Field Preemption

As noted above, field preemption is one of two recognized forms of implied Supremacy Clause preemption and one of two forms of preemption that the *Kewanee* Court failed to directly address.<sup>195</sup> According to the doctrine of field preemption, state laws will be deemed

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192. See, e.g., *Dun & Bradstreet Software Servs., Inc. v. Grace Consulting, Inc.*, 307 F.3d 197, 216-19 (3rd Cir. 2002); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1164-65 (1st Cir. 1994); *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 660 (4th Cir. 1993); *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 847-48 (10th Cir. 1993); *Computer Assocs. Int'l, Inc.*, 982 F.2d at 716; *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1090 n. 13 (9th Cir. 1989); *Stromback*, 384 F.3d at 304. See also *Ez-Tixx, Inc. v. Hit-Tix, Inc.*, 919 F. Supp. 728, 737-38 (S.D.N.Y. 1996).

193. See *Stromback*, 384 F.3d at 304 (identifying proof of a confidential relationship as the extra element); *Dun & Bradstreet Software Servs.*, 307 F.3d at 218 (identifying the alleged breach of duty of trust and confidentiality as the extra element); *Trandes*, 996 F.2d at 660 (identifying breach of trust or confidence as the extra element); *Gates Rubber*, 9 F.3d at 847-48 (identifying breach of trust or confidence as the extra element). However, as is discussed more fully in Section V., *infra*, the existence of a trade secret is also an essential element of a trade secret claim, particularly in light of the definition of copyrightable subject matter. See *infra* Section V. See also *Firoozye v. Earthlink Network*, 153 F. Supp. 2d 1115, 1130-31 (2001) (identifying the requirement of secrecy as the extra element and opining that the plaintiff's trade secret claim was qualitatively different from a copyright infringement action).

194. See Section V, *infra*. See also *Laws v. Sony Music Entm't, Inc.*, 448 F.3d 1134, 1144 (9th Cir. 2006). See also *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1324 (Fed. Cir. 2003) ("[n]ot every 'extra element' of a state law claim will establish a qualitative variance between the rights protected by federal copyright law and those protected by state law"), quoting *Data Gen. Corp.*, 36 F.3d at 1164, and citing *Computer Assocs. v. Altai*, 982 F.2d 693, 716 (2d Cir. 1992). In *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1164-65 (1st Cir. 1994), the court explained that the mere existence of an extra element does not make a cause of action qualitatively different. The state cause of action must include both an extra element and be qualitatively different from a copyright infringement claim.

195. See *supra* note 99 and accompanying text.

to be preempted when it appears that Congress intended to occupy the entire field, thus precluding any state or local regulation.<sup>196</sup> The Supreme Court in *Rice v. Santa Fe Elevator* explained, “[t]he scheme of federal regulation may be so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it.”<sup>197</sup>

Due to the expansion of patentable and copyrightable subject matter post-1974, it is hard to imagine information that would not be within the scheme of federal regulation. However, the enactment of Section 301 of the Copyright Act and the savings clause of the Economic Espionage Act suggest that Congress did not intend federal law to “so occupy the field” that state trade secret law cannot co-exist with patent and copyright law. Moreover, if field preemption were considered as part of an updated *Kewanee* analysis, it is unlikely to be successful due to the simple fact that the Supreme Court can define “the field.”<sup>198</sup> In this regard, the Supreme Court’s field preemption jurisprudence is a lot like its obscenity jurisprudence; although it has articulated a rule, the decision to actually apply the rule is a case of knowing it when it sees it.<sup>199</sup> The success of a field preemption argument is also highly dependent on whether the Court applies the presumption against preemption that is applicable to areas of law traditionally within the

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196. *Gade v. Nat’l Solid Wastes Mgmt. Ass’n*, 505 U.S. 88, 104 n. 2 (1992) (“[F]ield preemption may be understood as a species of conflict pre-emption: A state law that falls within a pre-empted field conflicts with Congress’ intent (either express or plainly implied) to exclude state regulation”); *Pac. Gas & Elec. Co. v. State Energy Res. Conservation & Dev. Comm’n*, 461 U.S. 190, 203-04 (1983) (federal interest in a field is “so dominant that the federal system will be assumed to preclude enforcement of state laws on the same subject”); *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947) (describing a field in which federal regulation is “so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it”).

197. *Rice*, 331 U.S. at 230, citing *Pa. R.R. Co. v. Pub. Serv. Comm’n*, 250 U.S. 566, 569 (1919); *Cloverleaf Butter Co. v. Patterson*, 315 U.S. 148 (1942).

198. *See Univ. of Colo. Found., Inc. v. Am. Cyanamid Co.*, 196 F.3d 1366, 1372 (Fed. Cir. 1999) (holding that patent law so occupied the field with respect to the definition of inventorship).

199. *See Nelson*, *supra* note 177 (noting that the Supreme Court has become increasingly reluctant to find field preemption). At the time of *Kewanee*, suggestions were made that the field covered by U.S. patent law should be defined to include all information that is patentable. Under this approach, if an invention could be patented then the doctrine of field preemption would apply to prevent parallel trade secret protection. If, however, the information sought to be protected was not patentable, then the states were free to provide trade secret protection. The Supreme Court rejected this so-called “partial preemption” argument as unworkable because it would require state courts to determine the patentability of information that was the subject of a trade secret claim. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 492 (1974).

purview of the states.<sup>200</sup>

With respect to patent and copyright law, both the presumption against preemption and the definition of the field can cut both for and against the preemption of trade secret law. If the Court defines the field broadly to include all information within and without the scope of patentable subject matter and all information within the scope of copyrightable subject matter as it suggested it would in *Goldstein*,<sup>201</sup> then federal law occupies the field. Similarly, if one considers the constitutional basis and history of U.S. patent and copyright law and the fact that patent and copyright claims are within the exclusive jurisdiction of the federal courts, then arguably the presumption against preemption does not apply.<sup>202</sup> Indeed, this position is consistent with the Court's statement in *Lear* that, when in doubt, the policies underlying *Sears/Compco* should prevail.<sup>203</sup>

Conversely, if the Court defines the field of patent and copyright law narrowly to provide only the limited grant of exclusive rights for some information and recognizes that trade secret law is primarily concerned with preventing unfair business practices, then U.S. patent and copyright law does not occupy the field. Furthermore, the presumption against preemption should apply because the regulation of business practices is an area of law that has historically been left to the states.

Although the Supreme Court has not addressed the issue of field preemption as directly as it should, particularly in light of post-1974 changes in the scope of patent and copyright law, this author believes that the Court's obvious desire to preserve state trade secret law would lead it to conclude that field preemption does not apply, the

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200. *California v. ARC Am. Corp.*, 490 U.S. 93, 101 (1989), citing *Hillsborough County v. Automated Med. Labs., Inc.*, 471 U.S. 707, 716 (1985) ("When Congress legislates in a field traditionally occupied by the States, 'we start with the assumption that the historic police power of the States were not to be superseded by the Federal Act unless that was the clear and manifest purpose of Congress.'" (quoting *Rice*, 331 U.S. at 230)). But see Calvin Massey, "Jolting Joe Has Left and Gone Away": *The Vanishing Presumption Against Preemption*, 66 ALB. L. REV. 759 (2003); Timothy J. Conlan and Robert L. Dudley, *Janus-Faced Federalism: State Sovereignty and Federal Preemption in the Rehnquist Court*, PSONline, July 2005, <http://www.apsanet.Org/imgtest/363-366.pdf>.

201. *Goldstein v. California*, 412 U.S. 546, 555 (1973). See also *United States v. Locke*, 529 U.S. 89, 108 (2000) ("'assumption' of nonpre-emption is not triggered when the State regulates in an area where there has been a history of significant federal presence").

202. *Locke*, 529 U.S. at 108 (2000) ("The 'assumption' of nonpre-emption is not triggered when the State regulates in an area where there has been a history of significant federal presence.").

203. See *supra* notes 43-46 and accompanying text.

troublesome language of *Goldstein* notwithstanding.<sup>204</sup> In so doing, and consistent with the section 301 preemption analysis set forth above,<sup>205</sup> it would be forced to define the field narrowly and emphasize the traditional rationale for trade secret protection (i.e., the prevention of unfair business practices) and downplay the rationale that it emphasized in *Kewanee* (i.e., the disclosure rationale). The question then becomes whether this switch in emphasis will help or hinder the Court's analysis of conflict preemption.

*B. Problem Two: The Court's Conflict Preemption Analysis is Incomplete and Based upon Unsupported Factual Assumptions*

While the existence of an express preemption provision suggests that implied preemption is not possible, the Supreme Court has held otherwise.<sup>206</sup> Thus, despite the express preemption provision of copyright law, courts are free to consider whether the doctrine of conflict preemption applies to preclude the enforcement of state laws.<sup>207</sup> As stated by the Supreme Court in *Kewanee*, the relevant question: Do state trade secret laws stand as an obstacle to the accomplishment of the objectives of U.S. patent and copyright laws?<sup>208</sup>

As detailed above, the *Kewanee* court was primarily concerned that the availability of trade secret protection would lead an innovator to choose it over patent protection and that trade secret law was inconsistent with the disclosure purposes of patent law.<sup>209</sup> To allay its concerns, the Court first went to great pains to align the objectives of trade secret law with the objectives of patent law so that even if an innovator chose trade secret protection over patent protection, the objectives embodied in federal patent policy would be furthered.<sup>210</sup> In so doing, it deemphasized the primary objective of trade secret law (to prevent unfair competition) and highlighted two secondary objectives

204. See *supra* note 189 and accompanying text.

205. See *supra* Section IV.A.1.

206. *Buckman Co. v. Plaintiff's Legal Comm.*, 531 U.S. 341, 352 (2001) ("neither an express pre-emption provision nor a savings clause 'bar[s] the ordinary working of conflict pre-emption principles"), citing *Geier v. Am. Honda Motor Co., Inc.*, 529 U.S. 861 (2000).

207. See the discussion of conflict preemption *infra* Part IV.B.

208. There are actually two types of conflict preemption: (1) the preemption that occurs when a person cannot possibly comply with both state and federal law; and (2) the preemption that occurs when state law stands as an obstacle to the accomplishment of the objectives of federal law. Nelson, *supra* note 177, at 228. The second type was at issue in *Kewanee*, 416 U.S. at 479.

209. See *supra* notes 120-124 and accompanying text.

210. See *supra* notes 95-105 and accompanying text.

(to encourage invention and disclosure).<sup>211</sup> Next, it suggested that the type of information protected under patent and trade secret law was different. It then equated the limited licensing of information that trade secret law allows with the disclosure purposes of patent law. Finally, without any empirical evidence to back up its assumption, the Court concluded that most innovators would choose patent protection over trade secret protection.<sup>212</sup>

The changes in patent law since 1974 undercut at least one rationale of the *Kewanee* Court: the argument that information protected by trade secret law is of a different character than patentable inventions.<sup>213</sup> Because of the broadened scope of patentable subject matter, information falling outside its scope now encompasses only a small percentage of the information that may be protected as a trade secret.<sup>214</sup> This fact does not lead automatically to the conclusion that trade secret law is now preempted by federal law. It does, however, mean that the categories of information that the *Kewanee* Court was most concerned about (Categories 2 and 3) are comprised of more information, and thus it is more likely that inventors will be confronted with a choice between patent and trade secret protection.

Arguably, the new patent application disclosure rules help to counterbalance the expansion of patentable subject matter by dissuading inventors with inventions of questionable patentability from applying for a patent in the first place.<sup>215</sup> Thus, even though the raw number of inventions falling within Categories 2 and 3 of the *Kewanee* analysis may have increased, the number of inventors who will burden the Patent Office with applications “doomed to be turned down” should decrease.<sup>216</sup> On the other hand, given the lag in time between the disclosure of patent applications (eighteen months after filing) and the

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211. See *supra* notes 96-97 and accompanying text.

212. See *supra* note 121-23 and accompanying text.

213. See *supra* notes 152-156 and accompanying text.

214. See Clifford, *supra* note 142, at 1241 (“Today, it is difficult to imagine anything for which a patent cannot be sought and received.”).

215. Arguably, this tendency to choose trade secret protection over patent protection is also furthered by changes that were made in 1999 to the “prior user defense” of 35 U.S.C. § 273. See Omnibus Consolidated Appropriations Act, 2000, Pub. L. No. 106-113 § 1000(a)(9), 113 Stat. 1505, 1536 (1999). See also James R. Barney, *The Prior User Defense: A Reprieve for Trade Secret Owners or a Disaster for the Patent Law?*, 82 J. PAT. & TRADEMARK OFF. SOC’Y 261, 272-73 (2000) (arguing that the prior user defense not only undermines the patent policy of disclosure, but also reduces the incentive for trade secret owners to challenge the validity of patented inventions).

216. See *supra* note 118 and accompanying text.

ultimate grant of a patent (more than two years after filing),<sup>217</sup> the new disclosure rules are likely to dissuade some owners of clearly patentable inventions from filing for a patent.<sup>218</sup> Because this was the scenario of most concern to the *Kewanee* Court, the changes to the disclosure rules of patent law also undermine the reasoning of the *Kewanee* Court.

The *Kewanee* Court's analysis of the disclosure purposes of patent and trade secret law is further undermined by the Court's assumption that the disclosure that occurs through the licensing of trade secrets is equivalent to the level of disclosure that occurs under patent law. Although it is true that trade secret law helps to facilitate the sharing of secret information between those with a need to know (e.g., employees, vendors, and co-venturers), the scope and nature of the disclosure is both qualitatively and quantitatively different from patent law. U.S. patent law requires patent applicants to fully disclose their inventions in a detailed specification, and patent rights can be lost if it is later determined that the disclosure was insufficient.<sup>219</sup> The purpose of this requirement is two-fold: (1) it enables a person who is skilled in the art to practice the invention once the patent expires; and (2) it puts the industry on notice of the precise parameters of the claimed invention so that infringement can be avoided.<sup>220</sup> When a patent is issued, the entire prosecution history—including the original patent application, the specification, the drawings, all correspondence with the USPTO, and all amendments to the patent application—are available for review. As noted above, this information is now widely available over the Internet.

The sharing and licensing of trade secret information need not be as detailed and cannot be as wide-spread as the disclosure of information that occurs under patent law. In fact, according to the reasonable efforts requirement of the UTSA, trade secret owners will destroy the protectable status of their information if they share too much with too many people.<sup>221</sup> Thus, it is generally recommended that trade secret

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217. Statistics on the average time for patent application pendency is about 24.6 months, available at <http://www.uspto.gov/main/faq/> (last visited Mar. 3, 2008) (last updated Aug. 14, 2003).

218. Before the changes to the patent application disclosure policy, the maintenance of information as a trade secret would result in the inability to obtain a patent if the underlying patent application was filed more than one year after the public use or sale of such information. However, because the definition of public use and sale under patent law is different from the trade secret concepts of "generally known" or "readily ascertainable," it was possible to maintain such information as a trade secret.

219. 35 U.S.C. §§ 112, 122, 282(3) (2000).

220. *Universal Oil Prods. Co. v. Globe Oil & Ref. Co.*, 322 U.S. 471, 484 (1944).

221. UTSA § 1(4) (amended 1985), 14 U.L.A. 536 (1985). See also Sandeen, *supra*

owners limit the scope and nature of any disclosures to a need-to-know basis.<sup>222</sup> If trade secrets are being used solely within an organization, then only faithful employees who absolutely need to know the information should have access to it, and only if they are under a duty of confidentiality. If trade secrets are being used outside of an organization, e.g., by vendors, contractors, business partners, or licensees, similar strategies for preserving the relative secrecy of the information should be used, including written confidentiality agreements that limit the use and dissemination of the information.<sup>223</sup> While the licensed technology may involve numerous bits of trade secret information, only the specific information that is needed by the particular licensee is usually disclosed.

The reasoning of the *Kewanee* Court is further undermined by its attempt to predict when inventors will choose patent protection over trade secret protection. While the sheer number of patent applications that have been filed in recent years suggests that the lure of patent protection is stronger than ever,<sup>224</sup> there is little empirical evidence to support the *Kewanee* Court's assumption that most inventors will choose patent protection over trade secret protection. By definition, trade secret owners do not announce their discoveries or publicize their decisions to choose trade secret protection over patent protection. Thus, the increase in patent applications does not necessarily mean that there is a corresponding decrease in trade secrets. To the contrary, the heightened interest in intellectual property protection has led many businesses to engage in a comprehensive and highly sophisticated analysis of the best intellectual property strategies to pursue.<sup>225</sup>

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note 13, at 138-40 (describing the reasonable efforts requirement).

222. 1 ROGER MILGRIM, MILGRIM ON TRADE SECRETS § 1.01 (2007); JAMES POOLEY, TRADE SECRETS § 4.04[2] (2007).

223. *Id.* at § 8.02 (2007).

224. For statistics on the increase in patent applications over the course of the past thirty-three years, particularly after the expansion of patentable subject matter, see Christopher L. Logan, *Patent Reform 2005: HR 2795 and the Road to Post-Grant Oppositions*, 74 UMKC L. REV. 975, 982-83 (2006); Cecil D. Quillen, Jr. *et al.*, *Continuing Patent Applications and Performance of the U.S. Patent and Trademark Office—Extended*, 12 FED. CIR. B.J. 35 (2002); Cecil D. Quillen, Jr. & Ogden H. Webster, *Continuing Patent Applications and Performance of the U.S. Patent and Trademark Office*, 11 FED. CIR. B.J. 1 (2001); John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 316 (2001). For statistics on use of the patent system by individual inventors, see Douglas N. Modlin & Michael A. Glenn, *International Patent Strategies for Individual Inventors*, 6 J. HIGH TECH. L. 129 (2006).

225. See, e.g., Daniel C. Munson, *The Patent-Trade Secret Decision: An Industrial Perspective*, 78 J. PAT. & TRADEMARK OFF. SOC'Y 689 (1996) (discussing the analysis that



Typically, this analysis proceeds on the assumption that multiple forms of intellectual property protection are possible and that, depending on the nature of the inventions, patent protection is not always the best option.<sup>226</sup>

While many inventors choose to pursue patent protection for the reasons mentioned in *Kewanee*, many inventors choose not to pursue patent protection for numerous reasons not acknowledged in *Kewanee*.<sup>227</sup> These reasons include:

1. The costs to prepare, file, and prosecute a patent application;
2. The costs to maintain and enforce patent rights;
3. The costs to pursue patent rights in all the countries where the invention might be made, used, or sold;
4. The nature of the invention and the difficulty of reverse engineering and independent discovery;
5. The value of the invention and the potential for earning significant income from the invention during the potentially short term of trade secret protection;
6. The manner in which the invention is distributed;
7. The risk that once obtained, a patent will later be found to be invalid;
8. An unwillingness to disclose the details of the invention;
9. Market forces, including the frequency with which new innovations replace old innovations; and
10. The availability of other forms of protection, including those available under copyright, trade secret, contract, and criminal law.<sup>228</sup>

Thus, it was inaccurate and naïve for the *Kewanee* Court to assert that a

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would be engaged in by the chemical, mechanical, and electrical industries).

226. Multiple forms of intellectual property protection are available because inventions are often comprised of different parts that may be protected under different intellectual property doctrines. For instance, a “new” chair may be protected by a utility patent (covering the fastener that attaches the seat back to the chair frame), a design patent (covering the shape of the chair), a trademark (covering the name of the chair), and copyrights (covering the advertising copy and promotional materials for the chair).

227. For a discussion of this choice, see Andrew Beckerman-Rodau, *The Choice Between Patent Protection and Trade Secret Protection: A Legal and Business Decision*, 84 J. PAT. & TRADEMARK OFF. SOC’Y 371, n. 3; Holly M. Amjad, *Patent vs. Trade Secret: Look at Costs, Industry, Returns*, BUS. J. KAN. CITY (2002); Sharon K. Sandeen, *Checklist for Choosing Between Patent and Trade Secret Protection*, 479 PLI/PAT 725 (1997); Munson, *supra* note 225; and Note, *Trade Secrets Law After Sears and Compco*, 53 VA. L. REV. 356, 369 (1967).

228. *Id.*

significant number of inventors do not consciously choose to forego patent protection when it is available to them. This is particularly true with respect to inventions that can be publicly used without fully disclosing embedded trade secrets, such as the formula for Coca-Cola, computer programs, and genetically engineered materials, and with respect to information that might also be protected pursuant to copyright or contract law.<sup>229</sup>

Finally, the Court's conflict preemption analysis suffers from the fact that it does not address the possibility of overlapping trade secret and copyright protection. Nor did the Court consider whether the availability of overlapping copyright, trade secret, and contract protection for certain inventions, such as computer software, might lead innovators to forsake patent protection. Applying the missing analysis today, the Court would presumably use the same analysis that it applied in *Kewanee* and compare the objectives of U.S. copyright law with the objectives of trade secret law. Since the primary objective of U.S. copyright law is to encourage creativity and the creation of works of authorship,<sup>230</sup> consistent with its observation in *Kewanee*, the Court would not be troubled by the existence of a state law that also encourages creativity.<sup>231</sup> Moreover, since the Copyright Act does not require authors to publicly disclose their works, the Court would not be concerned that trade secret law conflicted with a disclosure objective of copyright law.<sup>232</sup> It can be argued, however, that the availability of

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229. See Ozzie A. Farres & Stephen T. Schreiner, *Patent or Trade Secret: Which is Better?*, 124 BANKING L. J. 274, 277, 279 (2007) (citing Coke as a classic example and arguing that trade secret protection is more desirable, "particular[ly] if the technology can be kept secret with relative ease"); Clarisa Long, *Patent Signals*, 69 U. CHI. L. REV. 625, 637-38, 640-42 (2002) (arguing that an invention that is difficult to reverse engineer or that a competitor would view as cost prohibitive to copy may as well seek trade secret protection because the information holder is allowed to keep secret the information it has acquired, as opposed to patent protection, which requires complete disclosure of the information); Munson, *supra* note 225, at 692 (arguing that the most important consideration regarding the decision to seek patent versus trade secret protection is "whether inspection of the goods containing the new invention could be expected to disclose the invention itself"—in other words, whether reverse engineering should be expected to reveal the nature of the invention).

230. In *Goldstein*, the Court identified two purposes of copyright law: to encourage creativity and to achieve uniformity. *Goldstein*, 412 U.S. 546.

231. *Kewanee*, 416 U.S. at 493 (1974) ("Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation.").

232. Arguably, the deposit requirement of U.S. copyright law (17 U.S.C. § 704) is a disclosure requirement, but only to the extent that works deposited with the U.S. Copyright Office are available for inspection by the public. Because the U.S. Copyright Office has

overlapping copyright, trade secret, and contract protection may dissuade some innovators from seeking available patent protection.<sup>233</sup> In this regard, the Court's analysis in *Kewanee* relies heavily on the assumption, clearly undermined since *Kewanee*, that the choice of intellectual property protection is usually a one-versus-the-other-versus-the-other-proposition.

*C. Problem Three: The Court's Failure to Articulate a Clear, Unifying Test for Intellectual Property Preemption*

By basing its analysis on the premise that most innovators will choose patent protection over trade secret protection, the *Kewanee* Court backed itself into an analytical corner. Unless it is willing in future cases to ignore the fact that many innovators forego patent protection in favor of alternative forms of legal protection, a different rationale for the *Kewanee* decision must be articulated, i.e., one that is not dependent upon unsubstantiated assumptions about inventor motivations. Additionally, if, as suggested above, the Section 301 and field preemption analyses require the Court to emphasize the prevention-of-unfair-competition objective of trade secret law in order to avoid express and field preemption, then the Court's reliance on the asserted disclosure and incentive rationales of trade secret law also does not withstand the test of time.

If one ignores the incentive and disclosure rationales of *Kewanee*,

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adopted rules that enable less than full deposits of works for the purpose of protecting trade secrets, whatever disclosure purpose might be found in the deposit requirement is illusory at best. See Robert H. Solomon, *The Copyrightability of Computer Software Containing Trade Secrets*, 63 WASH. U. L. Q. 131, 146-47 (1985) ("[d]eposit of software with the Copyright Office may reveal nothing to persons who wish to examine the deposit. . . . [One] who does locate the desired deposit may find only the first and last twenty-five pages of computer program or data base with all trade secrets carefully excised from the deposit.").

233. See Jonathan D. Carpenter, *Intellectual Property: The Overlap Between Utility Patents, Plant Patents, the PVPA, and Trade Secrets and the Limitations on That Overlap*, 81 N.D. L. REV. 171 (2005); Viva R. Moffat, *Mutant Copyrights and Backdoor Patents: The Problem of Overlapping Intellectual Property Protection*, 19 BERKELEY TECH. L. J. 1473 (2004) (discussing how the expansion of the scope of patent, copyright, and trademark law has resulted in a greater likelihood of overlapping intellectual property protection); Gideon Parchomovsky & Peter Siegelman, *Towards an Integrated Theory of Intellectual Property*, 88 VA. L. REV. 1455 (2002) (finding synergies between the four areas of intellectual property protection and describing the effects of possible combination of patent with trademark protection and copyright with trade secret protection); Katherine M. Todd & John M. Hession, *Intellectual Property Law*, 539 PLI/COMM 335, 383-86 (1990) (identifying difficult substantive standards, the cost of protection, delays in perfecting protection, no immediate protection, and possible antitrust liabilities as disadvantages to pursuing patent protection over copyright or trade secret protection).

the argument that most inventors will choose patent over trade secret protection, and the argument that trade secret law protects a lot of information left unprotected by other federal intellectual property laws, what is left? Is there a rationale embedded in the *Kewanee* decision or in other intellectual property preemption cases that would support the outcome of the case even if much of its reasoning has been undermined by post-1974 changes to patent and copyright law? Moreover, given the Supreme Court's concerns about the administrative burdens of a partial preemption analysis, is there a way to avoid requiring state courts to determine the patentability of trade secret information? The answer to these questions lies in a first principle of intellectual property law, i.e., the principle that free competition is the rule and intellectual property protection is the exception.<sup>234</sup>

As the Court recognized in the *Sears/Compco* cases, in the context of intellectual property law, the issue of preemption is not simply about the proper relationship between the state and federal government. It is also about preserving the balance between intellectual property protection and free competition that the federal intellectual property laws seek to achieve.<sup>235</sup> Unfortunately, while the Supreme Court's concern for free competition is at the heart of the *Sears/Compco* doctrine, the Court abandoned this focus in *Kewanee*.<sup>236</sup> Instead, it chose to emphasize the alleged disclosure rationales of patent and trade secret law.

Fortunately, the Court's 1989 decision in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, marked a return to the free competition

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234. See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146-48 (1989); Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1031 (2005) ("Free competition is the norm. Intellectual property rights are an exception to that norm . . ."). See also 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 1:1 (4th ed. 2003); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 1 cmt. a (1995) ("The freedom to engage in business and to compete for the patronage of prospective customers is a fundamental premise of the free enterprise system.").

235. See Paul Heald, *Federal Intellectual Property Law and the Economics of Preemption*, 76 IOWA L. REV. 959 (1991) (describing the balance in terms of economic efficiency and the maximization of public wealth). See also GUSTAVO GHIDINI, INTELLECTUAL PROPERTY AND COMPETITION LAW 104 (Edward Elgar 2006). While this balance can be upset both by the adoption of state laws and the expansion of federal intellectual property laws, the latter scenario does not raise preemption issues except to the extent that a greater conflict between state and federal laws results or the expansion of federal law evidences an intent by Congress to "occupy the field." Apparently, Congress is free to upset this balance as long as it does not exceed its Constitutional powers. See, e.g., *Eldred v. Ashcroft*, 537 U.S. 186 (2003).

236. See Heald, *supra* note 235, at 988.

concerns that underlie the *Sears/Compco* doctrine and provides the basis for a refreshed analysis of *Kewanee*.<sup>237</sup> As the Court observed:

From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.<sup>238</sup>

While the Court in *Bonito Boats* was concerned with ensuring “substantially free trade in publicly known, unpatented design and utilitarian conceptions,” it nonetheless recognized that there might be limited circumstances in which state unfair competition laws will avoid preemption.<sup>239</sup> Unfair competition laws can survive a preemption challenge if they do not preclude the use of the information in other contexts and are designed to remedy some other wrong (e.g., consumer confusion).<sup>240</sup>

Another way to frame the test of *Bonito Boats* is to say that state laws avoid federal preemption if they do not unduly interfere with either of the dual aspects of federal intellectual property policies. First, they cannot unduly disrupt the incentive rationale of federal patent and copyright laws.<sup>241</sup> Second, even if the incentive rationale is not disrupted, state laws cannot unduly restrict free competition by: (a) prohibiting the use of information upon which others should be allowed

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237. *Bonito*, 489 U.S. at 141. See also Heald, *supra* note 235, at 988 (“As the resurrector of *Sears/Compco* and the reconciler of *Goldstein*, *Kewanee*, and *Aronson*, *Bonito Boats* firmly established that any state law which upsets the balance struck between benefits to society and benefits to inventors by patent law is preempted.”); Keith Aoki, *Balancing Act: Reflections on Justice O’Connor’s Intellectual Property Jurisprudence*, 44 HOUS. L. REV. 965 (2007) (highlighting *Bonito Boats*’ policy of free competition and innovation, in which intellectual property rights are an exception against free competition); S. Stephen Hilmy, *Bonito Boats’ Resurrection of the Preemption Controversy: The Patent Leverage Charade and the Lanham Act “End Around,”* 69 TEX. L. REV. 729 (1991); and David E. Shipley, *Refusing to Rock the Boat: The Sears/Compco Preemption Doctrine Applied to Bonito Boats v. Thunder Craft*, 25 WAKE FOREST L. REV. 385 (1990).

238. *Bonito*, 489 U.S. at 146.

239. *Id.* at 156.

240. *Id.*

241. See, e.g., *Biotech. Indus. Org. v. Dist. of Columbia*, 505 F.3d 1343, 1345 (2007) (holding that a state law concerning the pricing of pharmaceuticals interfered with the incentive rationale of patent law.); *Univ. of Colo. Found., Inc. v. Am. Cyanamid Co.*, 196 F.3d 1366, 1372 (Fed. Cir. 1999) (holding that “federal patent law preempts any state law that purports to define rights based on inventorship” because state laws would lack uniformity and have disparate application).

to build (e.g., information that is in the public domain, abstract ideas, natural phenomenon, and laws of nature);<sup>242</sup> or (b) by imposing restrictions without an adequate public policy justification. This preemption analysis brings us back to the essential question that should be asked about all tort theories: What is the “wrong” sought to be remedied? Historically, competition, and even aggressive competition, was not a compensable wrong.<sup>243</sup> To the contrary, it has long been recognized that competitors have a privilege to compete.<sup>244</sup> It is also not wrong for individuals and companies to copy and use ideas and information that are in the public domain.

In contrast to the Florida statute at issue in *Bonito Boats*, state trade secret laws (if properly limited in scope and application) are not preempted by federal law because: (1) they do not interfere with the incentive rationales of patent and copyright law; (2) they do not protect information upon which others should be allowed to build; and (3) they seek to punish wrongful activity that is qualitatively different from patent and copyright infringement. In other words, they are consistent with the dual purposes of federal intellectual property protection: on one hand, they provide another form of incentive for invention and creativity; on the other hand, they do so without unduly restricting free competition. The foregoing limitations on state trade secret laws are reflected in three features of the UTSA: (1) the requirement of secrecy; (2) the narrow and weak scope of available protection; and (3) the requirement that the defendant in a trade secret case be shown to have engaged in “misappropriation.”<sup>245</sup> The latter feature means that instead of minimizing the traditional objective of trade secret law (to prevent unfair competition) because it does not align with the asserted objectives of patent and copyright law, a court re-examining *Kewanee*

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242. This terminology is used instead of simply referring generally to the “public domain” as a way of acknowledging that there are different definitions and types of public domain materials. See Pamela Samuelson, *Enriching Discourse on Public Domains*, 55 DUKE L.J. 783 (2006); James Boyle, *The Second Enclosure Movement and the Construction of the Public Domain*, 66 LAW & CONTEMP. PROBS. 33, 68 (Winter/Spring 2003); Tyler T. Ochoa, *Origins and Meanings of the Public Domain*, 28 U. DAYTON L. REV. 215 (2002). Not all publicly available information implicates the anti-competitive goals that underlie the limits placed on copyright and patent protection because not all publicly available information is needed to encourage innovation and creativity. If this were not the case, then state laws that seek to protect information privacy and rights of publicity would arguably be preempted because, in large part, they restrict the use of publicly available information.

243. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION §1, cmt. a (describing the freedom to compete).

244. RESTATEMENT (FIRST) OF TORTS § 768 (Privilege of Competitor).

245. See Sandeen, *supra* note 11, at 676.

should embrace it precisely because it is different.

*D. Problem Four: The Court's Reluctance to Engage in an "As Applied" Analysis*

Beginning with *Sears/Compco* and continuing with *Bonito Boats*, the U.S. Supreme Court's intellectual property preemption jurisprudence has been frequently criticized.<sup>246</sup> The fact that *Sears/Compco* and *Bonito Boats* found the subject state laws to be preempted and *Kewanee* did not suggests to many commentators that the Court's preemption jurisprudence is inconsistent and flawed.<sup>247</sup> As set forth in the preceding argument, one flaw is the failure of the Court to articulate a clear, unifying test. Another flaw is the failure of the Court to differentiate between cases that apply a preemption analysis "in the abstract" and those that apply a fact-specific analysis that focuses on the precise nature of the information sought to be protected by the plaintiff.

The apparent inconsistency in the results of *Sears/Compco*, *Painton, Lear*, *Aronson*, *Bicron*, *Kewanee*, and *Bonito Boats* that upset Roger Milgrim and others can be explained by recognizing that some of the courts were focused on the specific facts of the case while others examined the preemption issue in the abstract. In both *Sears/Compco* and *Bonito Boats*, the Supreme Court focused on the specific facts of each case by noting that the information sought to be protected was clearly in the public domain.<sup>248</sup> In *Lear* and *Aronson*, the Court focused on the timing and details of the subject license agreements.<sup>249</sup> In *Bicron*, the Sixth Circuit Court of Appeals applied a fact-specific analysis that was later rejected by the Supreme Court in *Kewanee*, principally because the Court feared that state courts could not determine the

246. See *supra* Section I.A.

247. See, e.g., Joan E. Schaffner, *Patent Preemption Unlocked*, 1995 WIS. L. REV. 1081, 1114 (1995); Todd Wong, *Patent Law: The Patchwork Approach of the Supreme Court and its Interplay with State Law*, 1990 ANN. SURV. AM. L. 581 (1991); K. David Crockett, *The Salvaged Dissents of Bonito Boats v. Thunder Craft*, 13 GEO. MASON U. L. REV. 27 (1990).

248. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 159 (1989); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238 (1964).

249. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264-65 (1979); and *Lear, Inc. v. Adkins*, 395 U.S. at 653, 655-60, 668-74 (1969). See also *Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co.*, 112 F.3d 1561 (Fed. Cir. 1997) (The court observed: "[I]n examining the interface between national patent policy and state contracts, the Supreme Court requires this court to consider 'whether overriding federal policies would be significantly frustrated, by enforcing the license.'").

patentability of trade secret information.<sup>250</sup> In *Painton*, the district court took a fact-specific approach to the issues while the circuit court applied an abstract, policy-based approach.<sup>251</sup>

In thinking about federal preemption, it is logical to assume that the required analysis is not dependent on the particular facts of a case. Since the basic issue of a preemption analysis is whether a state law interferes with the purposes of federal law, it would seem that a comparison of the two laws is enough. However, as common sense and the record of the Supreme Court's intellectual property preemption jurisprudence indicates, this approach does not work in IP preemption cases because the required analysis is dependent upon knowing the nature of the information sought to be protected. Without reference to specific information, there is no way for a court to know whether the plaintiff seeks to protect information upon which others are allowed to build, i.e., information that is in the public domain. The *Kewanee* Court was able to skirt this inquiry by accepting the argument of the Ohio State Bar Association that information that is in the public domain would never be protected under the trade secret law of Ohio. Whether this is true in all cases emanating from all States is the critical question. As was shown in the case of *Laws v. Sony Music Entm't, Inc.*, it is possible for a state cause of action to be free from preemption generally, but for a specific claim to be preempted.<sup>252</sup> Therefore, care must be taken by courts in trade secret cases to be certain that claims of trade secret misappropriation are not re-packaged copyright or patent infringement claims.<sup>253</sup>

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250. *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1078 (6th Cir. 1973) ("Our inquiry into the subject should be governed by certain facts which are admitted or obvious from the evidence offered and the concessions of counsel. First, the trade secrets in question relating to the processes, procedures and manufacturing techniques of Harshaw, as conceded by counsel for Kewanee, were 'patentable.' . . . Second, the record demonstrates beyond any doubt that the claimed trade secrets had been in commercial use for more than one year prior to the commencement of this lawsuit."). *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 491-92 (1974).

251. *Painton & Co., Ltd. v. Bourns, Inc.*, 442 F.2d 216, 223-25 (2d Cir. 1971).

252. 448 F.3d 1134, 1145 (9th Cir. 2006). In *Laws*, while the defendant conceded that state claims for invasion of privacy and violation of the right of publicity could co-exist with U.S. copyright law, it successfully argued that the plaintiff's particular complaints amounted to a re-packaged claim of copyright infringement. *Id.* at 1139.

253. According to the UTSA and common law principles of trade secret law, there are three potential trade secret "wrongs": the wrongful acquisition, disclosure, and use of trade secrets. See *supra* note 2. Accordingly, there are possible factual scenarios in which the method of acquiring a trade secret involved the act of reproducing the secret—one of the exclusive rights of a copyright holder. Similarly, the acts disclosing and using an alleged trade secret may align with a copyright owner's distribution, public display, and public performance



## V. GUARDING AGAINST THE ANTI-COMPETITIVE EFFECTS OF STATE LAWS

*Kewanee*, of course, will not be the last time that the U.S. Supreme Court will consider whether a state law that treads upon federal patent and copyright policies should be preempted. One would hope that given the number of cases that it has considered related to the issue, the number of suspect state laws will diminish over time. Unfortunately, the combined effects of the business community's love affair with intellectual-property-like protection and new forms of perceived wrongdoing engendered by digital technology and the Internet have led to calls for expanded trade secret protection and new state unfair competition laws.<sup>254</sup> Thus, questions of federal preemption will continue to arise. If these questions went directly to the U.S. Supreme Court, where in recent years it has expressed concern about the anti-competitive effects of expansive intellectual property protection,<sup>255</sup> then the anti-competitive consequences of poorly drafted and applied state laws might be short-lived. However, since the starting point for all challenges to state laws is at the trial court level, it is important for trial judges to get the intellectual property preemption analysis correct the first time.<sup>256</sup> Otherwise, there is a risk that new state causes of action will be used as inappropriate competitive weapons and innovation and

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rights. It cannot be stated categorically, therefore, that trade secret claims never concern the exclusive rights of copyright holders.

254. See, Elizabeth A. Rowe, *Introducing a Takedown for Trade Secrets on the Internet*, 2007 WIS. L. REV. 1041 (2007) (suggesting a legislative mechanism for the take down of trade secrets that are posted on the Internet and arguably within the public domain); Vincent Chiappetta, *Employee Blogs and Trade Secrets: Legal Response to Technological Change*, 11 NEXUS 31 (2006) (arguing that employee blogging requires a reexamination and broadening of trade secret protection); and Note, *The Law of Trade Secrets: Toward a More Efficient Approach*, 57 VAND. L. REV. 1269 (2004) (proposing a simplified and arguably broader approach to trade secret protection). See also, *Burbank Grease Services, LLC v. Sokolowski*, 717 N.W. 2d 781-788 (Wis. 2006) (holding that Wisconsin's version of the UTSA did not bar common law claims for the misappropriation of information not qualifying for trade secret protection).

255. See, e.g., *KSR Int'l. Co. v. Teleflex, Inc.*, 550 U.S. \_\_\_, 127 S.Ct. 1727 (2007); *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003); *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001); *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000). See also David E. Shipley, *What Do Flexible Road Signs, Children's Clothes and the Allied Campaign in Europe During WWII Have in Common? The Public Domain and the Supreme Court's Intellectual Property Jurisprudence*, 13 U. BALT. INTELL. PROP. L. J. 57 (2005).

256. See *Wal-Mart*, 529 U.S. at 215 ( "To the extent there are close cases, we believe that courts should err on the side of caution and classify ambiguous trade dress as product design, thereby requiring secondary meaning." ).

creativity will be hampered.<sup>257</sup>

In the intellectual property context, it is important for attorneys and judges to understand that the preemption issue is not just about the relationship between the state and federal government. It is also about preserving the balance between intellectual property protection and free competition that the federal IP laws seek to achieve. The *Sears/Compco* and *Bonito Boat* cases represent one line in the sand that states cannot cross, i.e., the protection of content upon which others should be allowed to build. But given the free competition concerns that underlie both cases, it would be improper for trial courts to fail to consider the anti-competitive effects of state law generally.

As the foregoing analysis reveals, challenges to state laws based upon the belief that they are preempted by patent or copyright law may present at least three different scenarios: (1) the *Goldstein* scenario, where state law protects information that is left unprotected and that is not expressly excluded from protection by federal law; (2) the *Sears/Compco* scenario, where state law protects information that is excluded from protection, e.g., information that is in the public domain; and (3) the *Kewanee* scenario, where state law protects information that can also be protected by patent or copyright law. The first task of a court in examining a challenged state law should be to determine which scenario applies. One complication is that the content sought to be protected might fall under more than one scenario. Another complication is that, although the state statute may, on its face, apply to a limited set of information, the plaintiff might be trying to protect a broader class of information.

If the *Sears/Compco* scenario is implicated, then the statute should be preempted because it is clearly anti-competitive, i.e., it prevents the use of information that federal policy states is of a type upon which inventors and authors should be allowed to build. If the *Goldstein* scenario is implicated—an unlikely event given the post-*Goldstein* expansion in the scope of patentable and copyrightable subject matter—then presumably there are no anti-competitive effects because the state law is designed to protect information that is neither expressly included nor excluded from protection under federal law. However, a court should still consider whether the state law interferes with the incentive rationale of patent and copyright law and whether there is a sufficient public policy reason to justify the restrictions on free competition.

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257. See, e.g., Jeffrey W. Kramer, *How Misuse of the UTSA Can be Countered*, LA LAWYER (Nov. 2000) (describing abuses in trade secret litigation).

Under the hybrid *Kewanee* scenario, some content that could be protected by federal law is clearly protected by state law as well. This creates a direct conflict between federal and state law. In such cases, there should be a justification for the restriction on the use and dissemination of information that is of sufficient import to override society's interest in free competition. In the case of patent and copyright, we get greater innovation and creativity. In the case of contract law, we preserve the sanctity of contracts. Arguably, in the case of privacy laws, we preserve human dignity. In the case of trade secret law, we prevent unfair competition. This suggests the following simplified rule for IP preemption: If an adequate independent wrong (i.e., independent of the wrongs that give rise to patent and copyright infringement claims) can be articulated, then the state law will not be preempted unless the state law interferes with the incentive rationale of patent and copyright law or attempts to protect content upon which others should be allowed to build.<sup>258</sup>

Finally, just because a state law may not be preempted "on its face," does not mean that it should not be preempted "as applied."<sup>259</sup> For instance, trial courts that handle trade secret cases that are brought under the UTSA or similar state trade secret laws must be careful not to create a conflict with federal patent and copyright law by enabling the over-assertion of trade secret rights. This is particularly true when the state law claims attempt to protect information that falls within the broad scope of patentable and copyrightable subject matter, i.e., matter that is both explicitly protected by patent and copyright law, and matter that is expressly excluded from such protection.

When assessing claims based upon state statutes, courts can reduce the potential of misapplying the suggested rule for IP preemption by asking the following questions:

1. Does the claim interfere with the incentive rationale of patent and copyright law or the inventive or creative process?
2. If the answer to the foregoing question is in the affirmative, then the state law should be preempted. However, if the

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258. Application of these two tests should preclude the enforcement of contracts that purport to restrict the use of information that is in the public domain or that prevent independent discovery and reverse engineering. See also Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 143 (1999) (discussing other arguments that should lead to the non-enforcement of such agreements.)

259. See section IV.D. *supra*.

answer is in the negative, courts should ask: Would the enforcement of the state law otherwise hamper free competition? For instance, does the state law prevent inventors and authors from using information upon which they should be allowed to build?

3. If the answer to the foregoing question is in the affirmative, then the following questions should also be considered:
  - a. Does violation of the state law require wrongdoing that is qualitatively different from patent and copyright infringement, i.e., what is the underlying wrong that the state law is trying to remedy?
  - b. Is the application of the state law limited to actual wrongdoers?
  - c. Are the remedies that are available under state law, particularly injunctive relief, limited in time?
  - d. Do any other features of state law exist that limit the scope and application, and therefore the impact on free competition, of the state law?

Unless the scope and duration of the state law and any claims based thereon are limited and society gets something in return, then “the game (i.e., the protection of trade secrets or other information) is not worth the candle (i.e., the restrictions on free competition).”

#### CONCLUSION

The changes that have occurred in patent and copyright law since 1974, while undermining the reasoning and factual assumptions of the *Kewanee* decision, do not compel a change in its outcome. But, as argued in this article, they do require courts to re-focus their attention on the dual aspects of federal intellectual property policy, i.e., encouraging innovation and creativity without unduly restricting free competition. In the rush to protect the fruits of one’s intellectual labor, it seems that many courts have forgotten the first principle of intellectual property law: that competition is the rule and intellectual property protection is the exception. As the foregoing reexamination of *Kewanee* establishes, the safety valve that saves state trade secret law from preemption problems is the fact that, when properly applied, it does not unduly restrict free competition in information. Other state laws that attempt to provide protection for information should be held to the same standard.